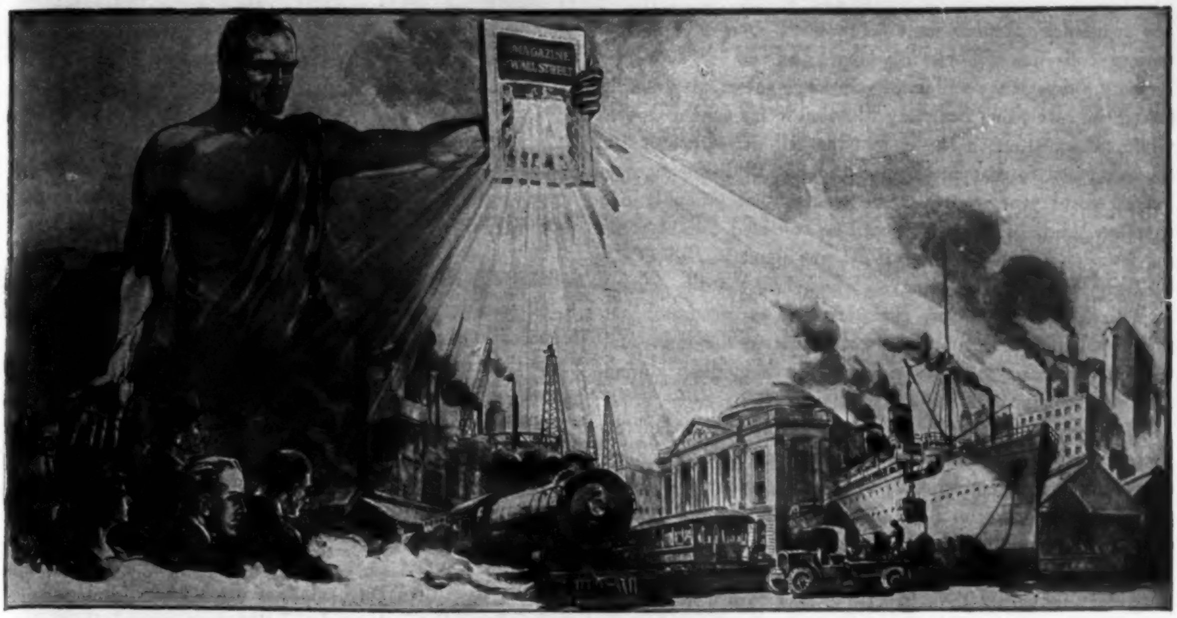

THE OUTLOOK

Liquidation Incomplete—What Will Congress Do?—Demand for Capital on the Increase—Steel Prices—The Market Prospect

IT is apparent that liquidation in commodities has not been completed. Firmness in the commodity markets last January seems to have been merely an interlude in the general declining movement which has now continued for almost a year.

While some commodities may be said to have become fairly stabilized, others show by their continued weakness that they still have some distance to go in this regard. A secondary liquidating movement has developed with regard to a number of commodities. The same is true of the stock market. It is evident that the period of readjustment will be of greater duration than was anticipated several months ago.

* * *

THE OLD AND THE NEW CONGRESS

THE adjournment of the last session of Congress on March 4 and the announcement of President Harding that the new Congress will be summoned to meet at some time during the early part of April, emphasizes the present position of important public business. The old Congress adjourned after making appropriations estimated to amount to about $2,800,000,000, but with at least two important appropriation bills still to be disposed of. The figure given is estimated as being about $1,500,000,000 less than the outlays for the last fiscal year.

Whether any appreciable saving will really be made for the coming fiscal year—and thus the question of real economy—evidently depends upon what is done in regard to the appropriations thus far not disposed of and which have to do chiefly with military and naval services and urgent deficiencies.

At the same time the adoption of a tariff bill by Congress which was vetoed by the President but which the Lower House was unable to pass over the veto of the executive, is merely a surface indication of serious difference of opinion on this topic as well.

A conference held at the White House between the President and Congressional leaders on the evening of March 7, discussed the question whether the tariff or internal revenue was the more important subject and hence to be assigned the more important place in the work of the new session. As yet there is no official answer to these questions. The views of the business world on the subject are not difficult to explain. It is deeply anxious and restive under the present condition of internal tax legislation and most desirous to have its status in that connection made clear.

Were Congress to begin work upon the tariff, leaving the revenue question to the last, and were the tariff issue actually to develop the sharp differences of view which are now evidently in sight, legislation might be indefinitely delayed. That this would be more than disappointing to the business world is evident. Indeed, it would be almost a destructive situation. The new Congress with its remnant of appropriation measures still to act upon and its necessity of deciding between revenue legislation and the tariff, or of dealing with the two topics in succession, is likely to be one of the most important legislative sessions—in so far as finance and business are concerned—that has occurred for many years past.

* * *

INCOME AND EXCESS PROFITS TAXES

THE first instalment of the 1921 income and excess profits taxes fell due and was paid on March 15. It will be some time before the official returns definitely giving the amount of the collections for this first instalment

are available. Returns must be received from all of the various collection districts throughout the country and preliminary estimates are seldom of very much value. It is worth noting, however, that Secretary Houston in his annual report, while calling attention to the fact that all excess profits tax receipts ought to amount to about $1,250,000,000 for the current fiscal year, expresses the opinion that probably not over two-thirds of that sum would be collected for the coming year. The collection for 1920 was about $2,000,000,000 and there are many observers who believe that the amount to be collected will be very much less than expected and that a corresponding reduction will also occur in the individual income taxes due to losses sustained by individuals during the calendar year 1920.

However this may turn out, it is hardly to be doubted that a considerable reduction will occur and that at a time when the Government seriously needs every dollar of revenue it can obtain. The total amount of Treasury certificates of indebtedness outstanding is still very large, being upwards of $2,500,000,000, and from time to time plans have been proposed for funding these issues into long term bonds, thereby relieving the Department of the necessity of continuously borrowing for the purpose of paying off outstanding obligations which mature.

The near approach of the date when the Victory Notes will begin to fall due emphasizes the character of the finance problem which is thus presented and calls special attention to the fact that, in the event of a shortage of revenue due to falling off of any taxes for the reasons just referred to, it will be necessary to resort even in larger measure than heretofore to temporary issues of certificates pending the time that the refunding can be accomplished.

* * *

THE MONEY SITUATION

A 7% rate for call money with time funds as scanty and as high in price as ever has now lasted so long as to have become monotonous. Predictions have been almost continuously made that reductions would occur before long as a result of depression in business with a consequent slowing down in demand. Nothing of the kind has occurred thus far but on the contrary there has been indication of late that commercial demand for funds was greater than the supply. In not a few cases banks have felt obliged to discourage their customers from applying for the lines of credit which they wanted for the coming season, on the ground that they were not in position to meet all demands and had to divide the supply in such a way as to make it "go around."

On the other hand, while there has been further liquidation in the interior of the country with a substantial movement of crops to export points or to domestic points of consumption, the spring demands have begun to make themselves felt. Moreover a very large "carryover" of some staples is indicated. Probably the most serious instance of the kind is seen in cotton, where the carryover is estimated at 10,000,000 bales.

Of course such carryovers must be financed by some one, and whether the funds are advanced by banks or by individuals they constitute a corresponding draft on the supply which would otherwise be available in the loan market. These are only a few of the factors which have been evident for some weeks past but whose importance is growing more and more obvious as spring advances.

* * *

THE PRICE OF STEEL

AN interesting interchange of correspondence has taken place between Judge Gary of the U. S. Steel Corporation and former Comptroller of the Currency Williams with respect to the future price of steel. This has been followed by a very general discussion of the subject which has called forth the opinion that readjustment of steel prices by the corporation is much to be desired. The argument that the price of steel has already been cut by the independent concerns has only a limited bearing on the situation. Basic prices are, as is well known, made by the U. S. Steel Corporation and the prices charged by others have fluctuated around these as a normal.

It is estimated that the general run of prices for steel products is about 75% ahead of pre-war figures, while other staples have been cut back to a much lower level, relatively speaking. While there has been some improvement in steel purchases during the past week or two, it has been very limited and the unfilled orders of the Steel Corporation have shown a continuous decline up to and including the last regular report.

It seems to be more and more evident that steel prices and prices in general must settle to what is considered a permanent level before large and widely diffused buying can be expected to set in. It is the importance of the steel industry as a basic line of production that makes this question of price perhaps more important than that of any other product at the present moment.

Precisely what would be the immediate effect of such a reduction upon the market values of steel shares cannot be predicted, but in the long run by increasing buying it would be likely to help more than any other factor.

* * *

THE MARKET PROSPECT

THE security and commodity markets are working in harmony with the outlook for money in favor of a slow readjustment of business. It looks as though a considerable time might be required for an improved condition in industry to be reflected in earnings of corporations whose shares are listed on the Stock Exchange.

In the meantime we are constantly reminded of the precarious position of the railroads, and particularly the indications that one of the standard rails, which has a very long record as a dividend payer, is likely to make an important change as to its disbursements in the near future.

The small scale renewal of liquidation which last week resulted from a realization of these conditions, is likely to discourage, temporarily, the hopes of those who are holders of industrial and railroad shares. At this writing it would appear that a further period of readjustment must be undergone before the market will make a fresh start toward discounting the recovery of business which inevitably follows every depression.

Tuesday, March 15, 1921.

The Task of the New Administration

Problems It Must Solve—The Country's Economic Situation—Part Individuals Can Play in World Reconstruction

An Interview with NICHOLAS MURRAY BUTLER, President, Columbia University

***By* WILLIAM McMAHON**

IT is a part of the unwritten history of Republican National conventions that the platforms indorsed by majorities of the electorate during the last quarter of a century were written largely through the instance of Nicholas Murray Butler. This requires statesmanship, and it might be a good idea to add right here that your statesman of today must be, among other things, an economist and a financier, just as the modern economist and financier must be a statesman.

I saw Dr. Butler in his office in the magnificent library of Columbia University and asked him for an expression of his views, in a general way, concerning matters of our industrial readjustment—what the new Administration should do, and so on. As the doctor talked to me, and through me to the men and women readers of this magazine who are engaged in the business of building America, I felt an exaltation to have perceived, through the inspiration of his personality, a forceful illustration of the associated graces of greatness. Unquestionably, the views and conclusions of Nicholas Murray Butler carry weight throughout the whole world.

"The new Administration will have something to do in adjusting and solving our present economic problems," I observed.

"The American economic problem," Dr. Butler replied, "is part of the world problem, and the world economic problem is in a very large part a problem for the American people. These facts have nothing to do with military alliances or with joint political undertakings. They grow out of the stern realities of the industrial and commercial life of the world.

Uselessness of Class Legislation

"Now there is very little use in the lumberman of Washington, the copper miner of Montana or Arizona, the wheat grower of the Dakotas or the cotton planter of Georgia or Texas running to Washington and clamoring for legislation to save him from loss. Such legislation, even if not disappointing in its immediate results, will certainly do him more harm than good in the long run since it only postpones the day when normal economic and industrial activity and relationships shall take the place of those artificially created either by legislation or as a result of abnormal conditions that have recently prevailed."

Our Foreign Policy

I mentioned the important matter of our foreign policy under the new Administration.

"The whole world is economically interdependent, and unless we recognize this and realize just what it means we shall blunder hopelessly in handling both our domestic and our foreign policies. A short time ago a public speaker made the statement that the American people are economically illiterate. He meant, I take it, that the American people are not either well instructed in the principles of economic life and action, or accustomed to think and act in terms of those principles. If this is what he meant, his statement is substantially correct. The late Professor Sumner, of Yale, said forty years ago: 'Any one who follows the current literature about economic subjects will perceive that it is so full of contradictions as to create a doubt whether there are any economic laws, or whether, if there are any, we know anything about them.' This statement is as true now as when first made. To get any clear notion of the economic outlook we must leave off attending to the wranglings and disputes of professional economists and lay hold of the hard facts of business and of life.

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NICHOLAS MURRAY BUTLER

DR. NICHOLAS MURRAY BUTLER, President of Columbia University, was the choice of the entire New York delegation to the last Republican Convention, for President of the United States. He received the Republican electoral vote for Vice-President in 1913. He was Commissioner to the Paris Exposition in 1889. He is President of the American Branch of the Conciliation Internationale and was Commander of the Legion d'Honeur in 1912. In 1914 he was chosen President of the France-America Society. He is a member of the American Society of International Law, a Trustee of the Carnegie Foundation, and Trustee of the New York Life Insurance Company. Dr. Butler's utterances are carefully studied by leaders of thought and action.

"The first of these facts is that the consuming power, the buying power, of many millions of human beings has been either destroyed or gravely limited by the war, and that, therefore, the markets of the world are by just so much narrowed or closed entirely. The fact that between the Rhine and the Vistula and in the Balkan Peninsula—not to speak of what once was Russia—there are tens of millions of persons living in countries whose currency is so depreciated when measured in gold as to be almost worthless, would seem perhaps to have no particular interest for the lumberman of Washington, or the copper miner of Montana, or the wheat grower of the Dakotas or to the cotton planter of the south. In truth, however, this lumberman, this copper miner, this wheat grower, this cotton planter, finds his product piling up on his hands at high production cost not primarily because the domestic market is disordered, but because the world market is demoralized. If American manufacturers were able to sell their goods abroad in sufficient quantity, they would quickly require more of the lumber, the copper, the wheat and the cotton, and these raw materials would themselves be sold abroad as well.

"The time has come to give up once for all the notion that American industry and trade can live on the home market, and that the home market is sufficient unto itself.

"Our industrial, commercial and financial undertakings have grown up from infancy through youth to full manhood. We have largely lost the great advantage we so long possessed in limitless lands open for settlement and in boundless natural resources lying ready for use. With the high concentration of great industries in colossal establishments, and the massing of over half our total population in cities of rapidly increasing size, we are approaching the same conditions and limitations that mark the economic activity of nations far older than ours.

"Moreover, as an immediate result of the war, we have become the world's creditor nation. Every other great people is in debt to us and that debt must be paid chiefly in goods. It so happens, however, that we ourselves hold a very large share of the raw materials from which these ready goods must be made, and nations with a heavily depreciated currency can only buy these raw materials from us at a sacrifice which is so stupendous as to be alarming. When it is remembered that $1,000 worth of wheat, or copper, or agricultural machinery, or boots or shoes, used to be purchased in the United States at a cost to the English buyer of some 200 pounds sterling, to the French buyer of some 5,000 francs, and to the Italian buyer of some 5,000 lire, while now the English buyer for the same shipment of goods must pay 250 pounds instead of 200 pounds, the French buyer 15,000 francs instead of 5,000, and the Italian buyer 25,000 lire instead of 5,000, we begin to realize what demoralization in the international exchanges means."

(Continued on page 720)

What American Business Needs

The Causes Leading Up to Our "Business Holiday"—How the Situation Can Be Corrected

***By* WILLIAM FELLOWES MORGAN, President of The Merchants' Association of New York.**

YOU have asked me to say what I think are the chief obstacles to a more rapid adjustment of business affairs and the resumption of business activity. This is a question that cannot be answered adequately in few words. Consideration of it leads to a review of the situation not only at home but throughout the world. In fact I am inclined to think that the situation abroad has more to do with our "business holiday" at home than any domestic cause.

The activity of our industries during the war was diverted from its usual channels and concentrated upon the production of war material. The result was a shortage of the commodities which these industries usually supply and this shortage was felt all along the line from wholesaler and jobber to retailer. It was felt by the public chiefly in the form of enhanced prices.

When the war ended and industries were able to go back to their accustomed field, they worked day and night to fill their orders, which represented the vacuum in supplies which the war had caused. Several months were required for this and, as a matter of fact, it was not until the middle of last summer that the demand was supplied and buying fell off. This change has been frequently spoken of as a "buyers' strike." It represented the transition from the "sellers' market," where the producers practically made their own prices, to a "buyers' market," where the purchasers were able to seek and find reductions in prices.

Our World Trade Effort Before the War

Before the war began this country had begun to seek abroad an outlet for its products. We all remember the comment which was raised by the announcement from the officials in Washington who keep track of such matters, that the value of our manufactured exports had begun to exceed the value of our exports of foodstuffs and agricultural products. This called attention forcibly to the fact that our industries were more than supplying our enormous home market and that the overplus was being sold to other countries.

When our home market had been supplied last summer, the industries once more turned their eyes to other countries for purchasers. There was a world-wide demand for their products. Many of them had fully expected a prosperous trade with foreign customers. But when they actually attempted to export, they found the markets of the world practically closed against them. Why was this so? It was so because the other countries had been impoverished by the war and had neither money nor goods with which to pay for our products. They could purchase only on the basis of long credits—credits longer than we were in a position to offer.

During the war we loaned billions of dollars to the other nations. It is well to keep in mind that these loans are not purely national affairs. They are loans from one collection of people to another collection of people. In order to advance gold to our allies in the war, we raised some money by selling Liberty bonds and increasing taxes at home. Therefore, while France, for instance, may owe the United States a billion dollars, in fact the taxpayers of France, who are chiefly the business men, owe the taxpayers of the United States, who are chiefly the corresponding class here, the money that France owes to us.

Why Foreign Markets Are Closed

This debt is only a portion of what France owes. She, or rather her business men, have not been able so far to pay even the interest on their debt. How then could we expect them to buy and pay for our boots and shoes, our automobiles, our textiles and the thousand and one articles which enter into foreign commerce?

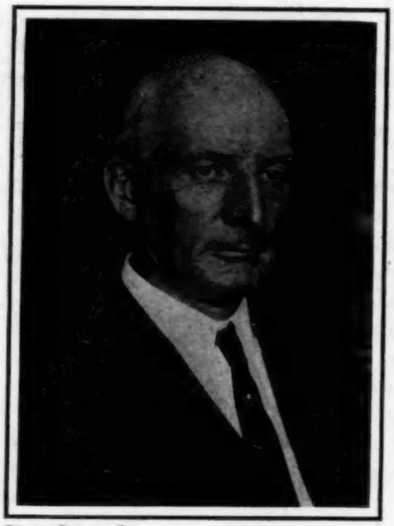


Photo Brown Bros.

WILLIAM FELLOWES MORGAN

Of course foreign trade represents the exchange of merchandise. Any foreign nation that attempted to pay for its imports entirely in gold would soon find that it had no gold left. France spent so much of its gold during the war that it was compelled to issue large amounts of money in the form of paper currency. Naturally, depreciation has followed. If you put two dollars where only one dollar existed before, each of them, speaking roughly, will be worth only fifty cents. The French franc, the par value of which is 19.3 cents, is now worth about 7.20 cents, or a little more than one-third of its par value. This means that if we sell a hat in France for one dollar, France must pay for it not five francs but nearly fifteen francs, or three times what she would have to pay if exchange were normal.

If the seller of this hat were able to allow the purchaser three years in which to pay for the hat he might be able to make the payment without this tremendous disadvantage because probably by that time the franc will be worth much more than it is now.

In this situation it is not strange that the markets of the world are closed against us. What was going to happen was foreseen months ago by our bankers and among them they devised a plan for providing foreign credits which would enable other nations to purchase from us. This plan took the form of the Foreign Trade Financing Corporation, which is capitalized at $100,000,000, and is authorized to issue debentures to the extent of $1,000,000,000. If this corporation can be set going upon a sound basis it will do much to relieve the situation.

The Russian Situation

Of course other nations cannot trade with us unless they have something that we want. In the case of Russia, one of the greatest undeveloped territories in the world, the unfortunate domestic situation has deprived her of anything that she can sell. Her experiments in communism have paralyzed her industries and her transportation system to such an extent that, commercially speaking, she seems to have relaxed into savagery. This closes a great and growing market in which we had an important interest before the war began. However, we may reprobate the brutalities and excesses of the Bolsheviki, the Russian people, as a whole, have always been our friends, and we can only wait with sympathy for the time when they will have a representative and responsive government, established upon a firm foundation.

Of course, the "enemy countries," Germany, Austria and Turkey, are able to engage in only a small fraction of the foreign trade which they enjoyed before the war. Even the allied countries, staggering beneath their loads of debt and their burdens of taxation, which draw the lifeblood from every industrial enterprise, are hardly in a position to buy from a country to which they owe already more than they can pay. With the exception of Russia, however, every nation is courageously endeavoring to right itself after the storm of war and to resume the normal pace which it maintained before the great struggle. The paralyzing effect of the taxation to which they are now compelled to submit may be judged by the outcry which the business men of this country are making over the comparatively small taxes upon their industries.

Settling the German Indemnity

One of the chief causes that has prevented the resumption of normal activities abroad is the delay in settling the amount and terms of payment of the German indemnity. The allied countries, especially France, groaning under their load of debt, have expected that Germany would, in the end, be compelled to relieve them by assuming a large portion, if not all, of the payment which they will be required to make. This expectation is the secret of

(Continued on page 685)

NEW PROSPERITY via FOREIGN TRADE

Official Government approved articles on the

FINANCIAL, INDUSTRIAL and ECONOMIC CONDITIONS

as existing in

ENGLAND	BELGIAN	GREECE	BRAZIL
FRANCE	NORWAY	ROUMANIA	CHILE
ITALY	SWEDEN	JAPAN	ARGENTINA
SPAIN	DENMARK	CHINA	PERU

Told by the Ambassadors, Ministers or the accredited representative of each country — Exclusively for the Magazine of Wall Street.

Norway

Its Development Since the War—Industrial Opportunities—Analysis of Trade with the U. S.

***By* His Excellency H. H. BRYN, Norwegian Minister to the United States**

I

IN NORWAY, as in other countries, one of the most noteworthy developments has been the great growth of state expenditures which reveals itself upon an investigation of the conditions of national finance during the period of the war and thereafter. The general and enormous rise in prices; the consequent increase in wages of state servants and workmen; the comprehensive measures which the state has been obliged to adopt in order to lighten the burden of heavy prices in the case of the bulk of the population—all these factors have caused the national budget to swell to a degree that would have been inconceivable prior to the war.

While the state expenditure for the last financial year before the war, according to the state budget, amounted to about 166.7 million kroner, the total expenditures, ordinary and extraordinary, in 1919-20 amounted to 802.9 million kroner, and in 1920-21 (the budget granted), to 772.9 million kroner, i.e., an increase from 1913-14 to 1920-21 of over 350%. The above amounts do not include the expenditure upon neutrality defense nor the amounts absorbed in the purchase and sale of goods by the state, which reach very considerable sums. (See below.)

The large sums flowing into the country during the above period, and the consequent increased capacity for taxation, however, made it possible for the state to meet its rising expenses. In fact, higher taxes produced such large amounts that all the state accounts (1914-15—1919-20) made up after the commencement of the war not only balanced but even showed a considerable surplus, which for the six periods in question amounted to approximately 430 million kroner. This enabled the state to meet the expenses connected with neutrality defense, amounting to about 200 million kroner, without employing the funds of the state loans, and it has also been possible for the exchequer to make considerable grants to public works, in particular to the state railways.

The above statement of state expenses includes both the ordinary and extraordinary state budgets for the periods in question.

The Extraordinary Budgets

The extraordinary budgets comprise expenditures which it is assumed will be met by:

(a) The funds of permanent state loans.
(b) The balance in hand of the exchequer.
(c) Extraordinary state revenues.

The funds of regular state loans have during the above period been exclusively devoted to objects which augment the wealth of the state, i.e., to the building of railways, telegraph and telephone lines, the regulation and harnessing of waterfalls, the purchase of various properties, etc.

From the funds of the state loans there have been employed or were assumed to be employed, according to the state accounts, in 1914-15—1919-20, 201 million kroner, and in 1920-21 (granted) 74.7 million kroner, making a total of 275.7 million kroner.

Of the balances in hands of the exchequer, there was employed or proposed to be employed on the extraordinary budgets during the above periods, about 31.1 million kroner, mainly for the purchase of property, building and similar profitable expenditures, increasing the state capital.

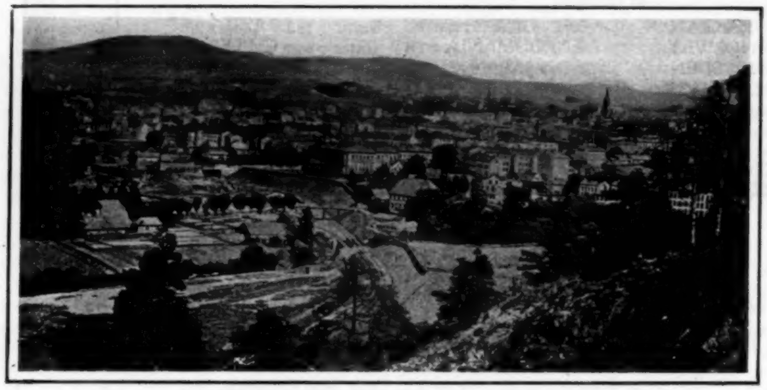
The extraordinary revenues have mainly consisted of the war "conjuncture" tax and tonnage dues, which, during the period 1915-16—1919-20, brought in a total of about 681.5 million, and 97.1 million kroner, respectively. In the current budget year, it is anticipated that the war conjuncture tax and tonnage dues will bring in a total of about 192 million kroner. With this amount, the taxes in question during the period up to and including the budget year 1920-21, will have given a total of about 970 million kroner.

These taxes will be employed to meet certain expenditures due to abnormal economic and political conditions, and which are, therefore, assumed to be of a more temporary character, e.g., measures to meet high prices, war "bonus," extraordinary measures for defense (in addition to the "neutrality" defense), etc. But considerable sums have also been employed or put aside for other purposes, e.g., building of railways, dwelling-houses, purchase of property, etc.

The proposal just put forward by the Government for the state budget for the financial year 1/7/1921-12/6/1922, shows a total expenditure of 720.2 million kroner, 648.2 million kroner of which is on the **ordinary** budget, and 72 million kroner on the

Photo by Brown Bros.

CHRISTIANIA, THE CAPITAL CITY
Looking Down Karljohans Street, with the Royal Palace in the Distance



PANORAMA OF CHRISTIANIA, NORWAY

A Modern City Beautifully Situated in Pine-Wooded Hills at the Head of an Island Studded Fjord.

extraordinary budget. The drafting of the budget has on this occasion offered special difficulties, the extraordinary revenues derived from taxation (war conjuncture tax and tonnage dues) having in the main ceased, while, on account of the still prevailing high prices, expenditures still continue heavy. Of the amounts included in the extraordinary budget, about 56 million kroner constitute expenditure which is an increase of state capital (railway building, telegraph and telephone systems, regulation and harnessing of waterfalls, etc.). Of this amount about 53.6 million kroner are met by the funds derived from the regular state loans.

The other items of expenditure which during the years of the war were placed upon the extraordinary budget, have been transferred to the ordinary budget wherever it was impossible to reduce or cancel them. This applies to sums amounting to about 67.5 million kroner. For this reason it has been unavoidable that the ordinary budget should increase considerably. To replace partially the war conjuncture tax, it is proposed to have a heavier progressive taxation of larger incomes. Otherwise it has been found possible to balance the budget without the introduction of new taxes.

The Ordinary Budget Expenditures

We give in Table I (page 669) a survey of the ordinary budgets of expenditure for the years 1913-14—1921-22. As these budgets are purely gross budgets, we give for the purpose of comparison a statement of the same budgets in net amounts. We further give in Table II a statement of the tax items of greatest material importance included in the budget.

As will be seen, the customs dues which before the war were the most important source of revenue sank to relatively minor importance during the war, whereas the direct taxes on incomes and property greatly increased. These latter now occupy the foremost place in the state's sources of revenue—a development which becomes all the more striking when it is remembered that the war conjuncture tax included in the extraordinary budget and which gave a revenue of enormous size by Norwegian standards, was also a direct tax on incomes.

At the end of 1920, the state debt amounted to 1,166,747,000 kroner, of which 740,965,000 kroner was consolidated debt and 425,782,000 kroner temporary debt.

The temporary debt is mainly employed for financing the state purchase and sale of goods, and for the maintenance of fisheries. On November 15, 1920, the sum of about 500 million kroner was bound up in these concerns. As counter-values to these, the state holds claims and stocks amounting to about 350 million kroner. It must be expected therefore that the state trade, etc., will result in considerable losses. To cover these there has, inter alia, been put forward a proposition by the Government looking to the flotation of a loan, the conduct and repayment of which it is assumed will be covered by a special tax levied on all capital of more important dimensions.

II

In time of war it is a natural assumption that a neutral, seen from the point of view of a belligerent country, will have all the advantages on its side. It is quite true that in the case of Norway the advantages of being neutral have been many and great; but not all these advantages have been lasting. Many of the economic advantages acquired by Norway through the war, and which swept in waves over that country, have long since receded and the waves also took with them much that was *not* brought by the flood of prosperity.

These problems are being considered all over the world. At a time of prosperity when everything looks bright, people are unwilling to listen to the advice of the more far-seeing as to the bad time that may come. Neither did Norway escape the bad times, which were first noticeable by an increasing sensitiveness to a rise in prices. It was anticipated that the peace would result in an improvement in conditions in Norway as elsewhere, but events did not turn out as was expected. Expectations had been too great, and disappointment was in equal degree.

But the artificial, forced and heterogeneous activities of trade were fortunately not so huge in scope as to render it impossible by measures of state and intervention by Norwegian banks, to bring minds to rest and in tune with the real conditions.

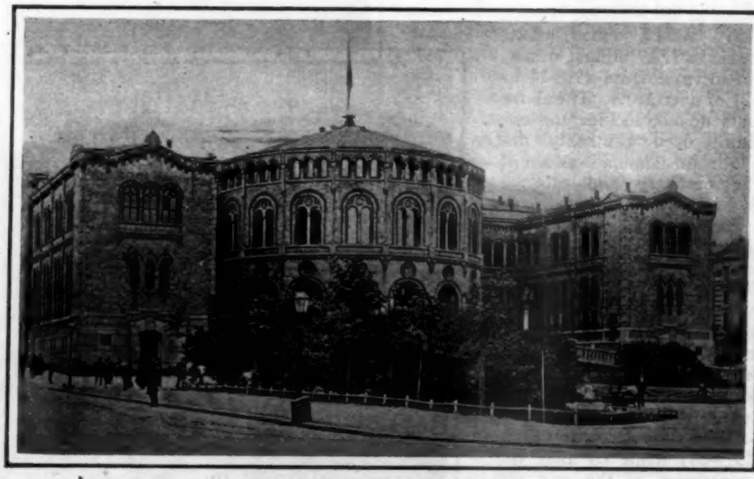
At the conclusion of the war, when all obstacles were removed, Norwegian imports increased to an enormous degree and consumption rose beyond means.

Norwegian People Act

The Norwegian people saw that something must be done to improve the economic position of the country, and to endeavor to retain something of what the years of war had given them, and which Norwegians, particularly her seamen, not without self-sacrifice and suffering, had procured for the country.

With this in view new taxes were introduced, as above mentioned, both on property and on incomes; import and export prohibitions came into force; and throughout the country there was started a reduced consumption campaign (Minsket Forbruk, M. F.) in order to assist our trade balance, which particularly in 1919 and at the beginning of 1920 was exceedingly unfavorable.

Our holdings in foreign countries, which after the war were considerable, have now shrunk to little or nothing.



THE HOUSE OF PARLIAMENT

This is the "Starlthing," the Legislative Ruling Body of Norway, Whose Members Are Elected Directly by the People.

A large part of the torpedoed Norwegian fleet has been replaced at top prices, and in addition the annulment of ship-building contracts made great inroads on Norwegian foreign holdings.

The negotiations which have been carried on between Norway and the United States of America, regarding a settlement for the fifteen requisitioned new building contracts for the "Christiana Group of Norwegian Shipowners," has as yet brought no definite results.

Value of the Krone

Up to the present, no direct intervention has been made by means of legislation to regulate the value of the Norwegian krone in respect of foreign exchanges. However, in February, 1920, the Government nominated an "Exchanges" Council with the task of assisting the authorities in their efforts to secure an improvement in these matters. Among other things, this council appealed to Norwegian bankers to endeavor to see that both new and existing credits should, so far as possible, be limited to objects of absolute necessity and that in general, strict judgment be exercised in granting credit, inter alia, in order to prevent goods being kept from purchase and sale.

The Exchanges Council has further pointed out the necessity of reducing the expenses of constructive works to what is strictly necessary, and in that connection they appealed to bankers not to grant loans to municipal authorities or private persons for new construction except in cases when the latter are quite imperative, and that steps should be taken on the part of the Government authorities as speedily as possible, looking toward regulative limitation of those public works which have been financed wholly or principally by funds derived from loans.

The discount was raised considerably as a result of the closeness of the money market. The rates of exchange fluctuated continually, greatly to the detriment both of Norwegian exporters and importers, who had difficulty in calculating the prices of goods.

The rates of exchange, as regards the countries of most importance to Norwegian export, attained quite fantastic heights. The *fall* in the exchanges of the Central Powers occasioned additions to prices and rate of exchange and also the cancellation of existing contracts.

Financing Norwegian Goods

With regard to the best methods whereby Norway's purchases in the United States of America may be financed the following may be mentioned:

(1) The purchaser opens a reimbursement account, either in an American or a Norwegian bank, effective against the presentation of ships' documents.

(2) The goods are paid for in cash after arrival without reimbursement or bank guarantee. Credit for short or long periods is also given, against or without acceptance.

Otherwise the method of payment must vary according to the nature of the goods.

During the war the method of payment was usually a bank reimbursement, but as the country returns by degrees to normal conditions, Norwegian purchasers should demand easier conditions of payment, similar to those offered by Norwegian exporters to their overseas customers. As a rule Norwegian exporters sell: cash against shipping documents at the place of the purchaser or against banker's bill on London, payable 30d, 60d, 90d, etc.

The unfavorable position of the Norwegian krone with respect to certain countries stimulates Norwegian exports to the latter, and also the home industry is indirectly stimulated by the low value of the Norwegian krone.

TABLE I.—NORWAY.

Gross and Net Ordinary Budgets.

Year	Gross Mill Kr.	Net Mill. Kr.
(According to State Account)		
1913/14	146.4	89.8
1914/15	153.7	91.6
1915/16	167.6	95.2
1916/17	202.2	112.7
1917/18	293.7	171.4
1918/19	347.6	199.9
1919/20	465.1	286.8
(Budget granted)		
1920/21	511.6	303.2
(Budget proposed)		
1921/22	648.2	405.2

TABLE II.—DISTRIBUTION OF TAXES.

Year	Tax on Incomes & Property Mill. Kr.	Customs Dues Mill. Kr.	Beer, Spirits & Tobacco Taxes Mill. Kr.	Stamp Taxes Mill. Kr.	Inheritance Duties Mill. Kr.
(According to State Acc.)					
1913/14	14.7	55.7	11.4	2.5	1.6
1914/15	16.6	56.2	10.1	2.5	2.0
1915/16	47.7	58.2	14.9	8.9	1.8
1916/17	113.9	67.8	15.9	19.6	2.7
1917/18	148.3	54.0	13.0	40.4	3.3
1918/19	171.5	68.8	18.1	24.7	5.7
1919/20	132.0	129.5	22.0	19.2	3.3
(Budget granted)					
1920/21	162.0	80.0	22.1	14.2	7.0
(Budget proposed)					
1921/22	280.0	60.0	21.1	14.3	7.0

Bankers Cautious

The fact that Norway has passed through the last 6 years without any financial crisis appearing in the country is primarily due to an increasing caution in guidance on the part of Norwegian bankers.

The more important Norwegian banks were able to discern in good time the approach of danger and to withdraw and keep away from the more dubious undertakings.

It can therefore with pleasure be recorded that during those years of crisis not a single Norwegian bank failed.

One small bank in Finmarken did get into difficulties, but the effects were entirely of a local character.

It is the Bank of Norway—the only bank in the country entitled to issue bank notes—which first and foremost stepped into the breach in conjunction with the leading private banks.

Time has brought about a feeling of solidarity, not only in daily life, in trade and intercourse, among the various leaders of trade, industry and the banks, but also in political life.

No Danger of Bolshevism

In this connection can be mentioned something which is known to be considerably exaggerated and which is given far too much importance in foreign countries, viz., the socialistic or Bolshevist movement in Norway. The country has a small but very loud-voiced flock of people who are eager supporters of Lenine's doctrines, but the seed they sow finds little or no soil in Norway.

Just before Christmas a railway strike was begun which, according to the Bolshevists, was to have serious consequences, with a general strike and perhaps a general settlement. But the state authorities stood together, and were firm to their decisions, so that the strike ended in a victory for the Norwegian community.

III

A good idea of the part played by Norway as supplier to the United States of America, and as consumer of American products, may be obtained by investigating the state of the trade balance between the two countries immediately before the war, and the subsequent developments of that balance. The figures contained in Table III, which is based upon official Norwegian statistical returns, show what Norway imported from and exported to the United States of America during the period 1913-1917, and the relation between the exchange of commodities and the total foreign trade of Norway.

TABLE III.—NORWAY'S TRADE WITH THE UNITED STATES.

	Imports from U. S.*	% of Total Imports	Exports to U. S.*	% of Total Exports	Tl Exports to & Imports from U. S.*	% of Total Foreign Trade
1913	39,200,800	7.10%	30,221,500	7.70%	69,422,300	7.35%
1914	73,059,900	12.86	44,863,700	10.94	117,923,600	12.07
1915	183,627,000	21.16	33,153,800	4.91	216,780,800	14.08
1916	337,997,800	24.97	32,386,500	3.33	370,384,300	15.82
1917	551,397,200	33.19	22,437,900	2.84	573,835,100	23.40
1918	199,698,700	15.94	7,006,200	0.98	206,704,900	10.30

*In Norwegian kroner.

These figures, which are as interest-

(Continued on page 717.)

Norwegian Bonds as Investments

High Credit Rating of the Country—Fluctuations in Price of More Recent Issues

By **H. I. PERRINE**

NORWAY, like other neutral countries during the war, enjoyed an enormous increase in her prosperity. Also as with practically all countries this prosperity has been materially curtailed since the signing of the armistice. Fortunately, however, the Norwegian government and her bankers took early precautionary measures and thereby prevented any disastrous results as a consequence of the decline in international trade in the past 18 months. An analysis of Norway's condition reveals that practically the only unfavorable factor in her outlook is in her international trade situation, but this is a condition that exists in practically all nations of the world today. In the case of Norway it does not appear to be so serious as to affect vitally her prosperity. The government authorities in co-operation with the banks have handled the situation very skillfully and the result has been that imports of luxuries into Norway have been materially reduced and an active campaign started to increase exports. It is true that Norway has had some labor difficulty, but the failure of the railway strike, which was planned and started by Bolshevist sympathizers, is indicative of the fact that the government has the radical element well under control.

NORWEGIAN DOLLAR BONDS.

Issue	Maturity	Offering Date	Offering Price	Present Price	Change
Norway 7-yr. 6% Notes	1923	**Feb., 1916	101½	95	Off 6½
Norway 20-yr. 8% Bonds..............	1940	Oct., 1920	100	99	" 1
City of Bergen 20-yr. 8% Bonds......	1940	Nov., 1920	98	94	" 4
City of Christiania 25 yr. 8% Bonds..	1945	Oct., 1920	99	95	" 4
Norway 3's of 1888	1963	July, 1888	88½%	*$360	—
Norway 4's of 1911	1973	May, 1911	100¾%	*$490	—

**$1,500,000 additional notes were offered in February, 1920, at 96.
*Per £200 ($1,000) Coupon Bond.

High Credit Rating

The credit of Norway ranks unusually high among the nations of the world. This has been graphically illustrated in the United States since the beginning of the war by the reception that Norwegian securities have had in our market. An examination of Norway's foreign debt discloses some interesting features that give a line on these securities as investment mediums.

The first issue that Norway floated in this country was a 2 and 3-year note issue of $3,000,000 bearing interest at 6%, which was offered in October, 1914. Half of this issue was redeemed in 1916 and the balance in 1917. In 1917 the bonds sold at a premium of about ½ point. In February, 1916, Norway came into our market again for a $5,000,000 loan which was in the form of 7-year 6% notes due February, 1923. These 6% notes were offered to the public at 101½ and later sold as high as 107. With the advance in interest rates in this country, however, the notes declined to a level which put them on a basis comparable to similar issues. An additional offering of $1,500,000 of these notes was made in February, 1920, at 96. The notes are listed on the New York Stock Exchange and are payable—principal and interest—in New York in U. S. gold. For a short-term investment they are very attractive. At the time that they were offered they were readily absorbed by investors.

In addition to the notes, the only Norwegian government dollar loan in the New York market is the 20-year 8% bonds, issued October 1, 1920, and due October 1, 1940. This transaction was an unusual one in many respects and caused considerable discussion in financial circles. The loan was first offered to British bankers, but London gracefully yielded to New York, not because of Great Britain's inability to finance the transaction, but for the reason that the offering of the bonds in the American market would assist materially in improving Norwegian exchange in terms of the dollar and also in bringing about an improvement in sterling exchange.

Our First Step in International Finance

The proceeds of this loan were used for the purchase of ships built in Great Britain. It was this feature that marked the issue as an unusual one, for most of the dollar loans floated in the United States by foreign governments have been for the purpose of establishing credits for the purchase of goods in this market. **While the actual proceeds of this loan were not used for goods purchased by Norway in the United States, yet it is true that these proceeds were used for the purchase of goods by England in the United States. It was the American investors' first step into real international finance.** The transaction represented in reality just as much an exchange of goods and service as did any of the war loans negotiated by foreign governments during the war. The only difference in this particular loan was that it was a three-cornered transaction: England owed the United States for goods; Norway owed England for ships; and we accepted Norway's promise to pay in place of England's; thus England was enabled to pay us for the goods she purchased and we supplied the credit to Norway to settle her bill with England. When Norway obtained this loan here, she obtained the right to claim goods or service direct from us to her; but she found it more convenient and profitable to direct us to pay England because she was a debtor there. The transaction was just as much to our advantage as though Norway took the goods direct from us.

These bonds bore interest at 8% and were issued at par. They were quickly absorbed by American investors and soon sold at a premium. An unusual feature of the issue was the provision that payments must be made in time of war as well as in time of peace, whether owners of the bonds are citizens of a friendly or hostile State. The Government of Norway also agreed to set aside $1,000,000 a year in equal quarterly instalments, which the fiscal agent in New York shall use towards the purchase of the bonds in the open market, if obtainable, at not more than 110 and interest. After October 1, 1930, bonds will be redeemed by lot at 110 and interest. After April 1, 1931, sinking fund payments will be applied to redeem bonds by lot at 107½. These bonds are now selling around 99-99¼, yielding about 8.10%. This is a slightly lower yield than similar issues of France, Belgium, Denmark and Sweden. It indicates the standing that the bonds have in the American market.

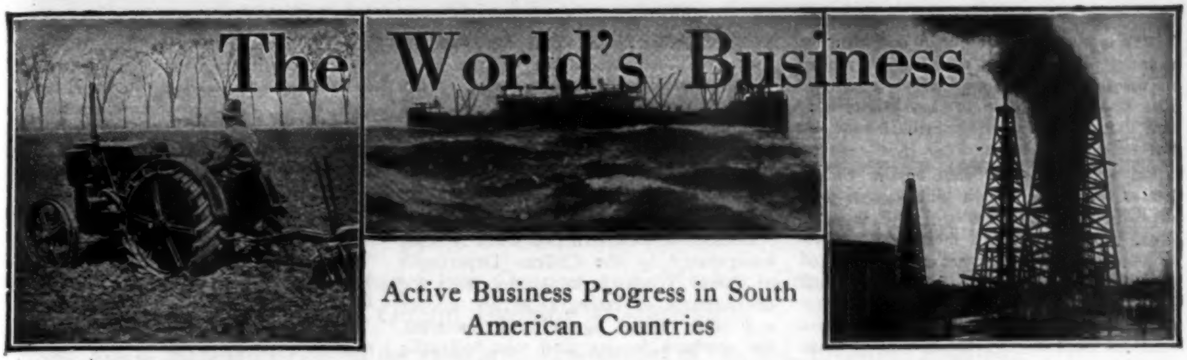
City Financing

Two Norwegian cities have come into the American market for funds, one of them, the City of Bergen, which sold in New York in November, 1920, a $4,000,000 issue of 20-year 8% bonds.

Bergen is the principal port on the Atlantic coast of Norway. It is the second city and second port of Norway, both in size and importance, and from it sails the greater part of Norway's merchant fleet. The proceeds of this issue were used for electric power development, housing, harbor-improvement and public work. A substantial part of the proceeds of the issue was expended for the purchase of materials in the United States. Prior to the war Bergen's total funded debt consisted of external loan issues between 1886 and 1913 bearing 4% interest and a single internal loan in 1887 bearing 3½% interest. The 8% dollar bonds were offered to the public at 98 and accrued interest and at the present time are selling around 94, showing a yield of about 8.60%. They have an attractive sinking fund provision which calls for the payment in quarterly instalments of a fund sufficient to retire annually $160,000 principal of bonds at 110 and interest up to 1940 and thereafter at a rate sufficient to retire annually $160,000 principal of bonds at 107½ and interest.

The other Norwegian city was Christiania, which in October, 1920, sold an issue of $5,000,000 25-year 8% sinking fund gold bonds. This city is the capital and also the principal port of Norway and financially it has always ranked very high. Prior to the war it was able to borrow abroad at from 4% to 4½%. City owned properties are valued in excess of the total debt, including this loan, and the proceeds of this loan were used for productive purposes such as electric works,

(*Continued on page 690*)



Active Business Progress in South American Countries

AFFAIRS IN SAO PAULO

THERE is capital in the United States at present willing and ready to go outside of the limits of this country for investment. An attractive field is afforded by our neighbor countries of Latin America.

In the past Europe has purchased South and Central American securities but is obviously handicapped now in that direction, and whereas the greater part of our own capital may find useful employment at home, yet there are millions available for investment abroad. Our large bankers are being called upon constantly for funds from nearly every one of the Latin American countries.

Few of our people realize the natural resources of our Southern neighbors. There are railroads to be constructed, mines to be developed, banks to be established and agriculture to be fostered. The money invested in such enterprises at the present stage in the development of these countries means not only a return to the investor but the advancement of the several communities. Some of the richest agricultural districts in the world need only railways in order to get their produce to market. Vast mineral resources are denied to the world's commerce because capital has not been found to exploit them.

It is predicted by men who ought to know that the world will have to look more and more in the future to the tropics for its food supply. Since tropical agriculture involves large-scale production and much capital, there will be attractive opportunities for investment in plantations, cattle ranches, canning factories, packing plants, and all sorts of equipment. Also our own industries will benefit by possessing an assured supply of raw materials, for many of the raw materials which are most necessary for our manufacturing plants are products of Latin America. It is important that companies controlled by American capital should be in a position to furnish these raw materials to our factories.

It is safe to say that far fewer citizens of the State of New York or of any other state know about Sao Paulo, than the citizens of Sao Paulo know of us. Sao Paulo is one of the twenty states comprising the United States of Brazil, and is located in the southeastern part of that country, with a seaboard of 372 miles on the Atlantic Ocean. The capital of the state is Sao Paulo, a city of a half million inhabitants.

Here are some facts with reference to the state of Sao Paulo: It produces sixty per cent of the world's coffee supply. It has a population of nearly four million people. It is as large in area as the New England states and New York combined. Thirty per cent of the population are immigrants from Europe. Most of the state is a plateau about two thousand feet above the sea level, and its climate resembles that of Southern California. Its soil is of great fertility, and produces besides coffee large quantities of rice, cotton, tobacco and sugar cane. In 1910 the value of the output of its manufactures amounted to about $42,000,000,—in 1920 to $150,000,000. It has 4,300 miles of railroads, its total wealth is $4,000,000,000, and its credit has always ranked very high. Its government is almost identical with that of the government of the states of this country,—the 170 cities and towns are up to date in appurtenances of sanitation, and it has an excellent public school system.

The figures of the foreign trade of the state of Sao Paulo given in the accompanying table show the prosperity of the state.

SAO PAULO'S FOREIGN TRADE

Year	Exports	Imports	Total Trade	Excess of Exports
1905	$55,657,600	$18,393,200	$74,050,800	$35,464,400
1910	70,535,600	35,450,000	105,985,600	35,085,600
1915	116,303,200	39,221,700	155,524,900	77,081,500
1919	271,871,800	95,253,700	367,125,500	176,618,100

The revenues of the state are derived from duties levied on exports, income from state-owned railways, property transfer taxes, industry or license taxes, sale of public lands, and other sources. In addition to the regular export tax the state levies a special surtax on coffee of five francs per bag.

Previous external loans have been issued in England, France, Holland and Germany. In 1907, 1,000,000 pounds out of an issue of 3,000,000 pounds 4 per cent Exchequer Bonds and in 1908 2,000,000 pounds out of an issue of 15,000,000 pounds 5 per cent Treasury Bonds were offered and taken in New York. Both of these loans were repaid before maturity.

The external debt of the state outstanding at the present time is approximately 5,961,300 pounds or $23,845,200. (A pound to equal $4.00.) Of this amount about 5,080,000 pounds or $20,320,000 were issued in connection with the acquisition and ownership by the State of the Sorocabana Railway.

Speaking generally, the United States has a very direct interest in the question of establishing American enterprises in Latin America, aside from its desire to increase our commerce. Our foreign enterprises are almost invariably established in Latin American countries under concessions, which define the privileges and the obligations. In the past much unpleasantness and misunderstanding have resulted from these concessions. This is where our State Department could come in and be helpful through exerting its good offices to assist in the establishment of a friendly relationship between those countries and us.

As a consequence of the impending readjustment of the finances of some of the Latin American Governments, many issues of bonds now held in France and England, are likely to be refunded with American money. Other securities will be sold in this country as a partial payment of the ever-increasing debt owed to us by the European countries. The purchase of these securities would mean our increased participation in established enterprises to the stimulation of our trade with Latin America.

Sao Paulo affords an example of the general desire on the part of the Latin American people to get aboard the fast-moving train of progress and enterprise.

OPTIMISM IN ARGENTINA

THE high development of industry and trade in Argentina is similar to that of the United States, and conditions there are about as our conditions here, with prospects of improvement at about the same rate. There have been failures due to over-speculation in Argentina and some of the newer houses have been unable to stand up under the general depression of the market. There is an accumulation of merchandise from this country previously sold to these new concerns, and this accumulation has been increased by merchandise shipped late, and also by some which has been refused by some of the largest houses in Argentina. Many American houses are holding the goods down there for improvement in the market.

The crops are in excellent condition. There is a general feeling of optimism on account of these crops, and there is money in the interior of Argentina although the interior merchants will not use it until they feel that they can get somewhere near the bottom of the market.

On account of the debt to the United States there has been a piling-up of peso deposits in Argentina, and the lack of New York transactions means the restriction of dollar credits and the absence of outlet for investment of Argentine money held by the banks. There is a feeling that the rate of exchange will improve in the next six months. It is the opinion of those who know, that American houses should open up their own branches in Argentina and in other South American countries, as this would greatly reduce the difficulties and complex details which are seen on all sides. Europe does this and that is probably one reason why Argentina looks more to Europe than to this country.

The Argentine State Railways will purchase 6,000 tons of American steel rails, and the government is negotiating in this country for 30 locomotives. In 1920 the United States furnished seven times more coal to Argentina than Great Britain furnished.

American internal combustion engines are in demand in Argentina. We supply 90 per cent of such import trade.

United States exported to Argentina in January, 1921, merchandise to the value of $24,231,228, as against $14,007,831 in January, 1920. We imported from Argentina in January, 1921, $5,730,052 as against $21,343,793 in January, 1920.

HOUSE-CLEANING IN CHILE

THE expansion of the Chilean banking system is doing a great deal to make the United States independent of English influence, and the general lack of speculation should be a piece of pleasing news to American exporters. There is not a large demand for American merchandise, or for any other for that matter, owing to large stocks on hand. But prophecies are made that very shortly there will be liquidation of the large stocks, and American representatives are on the ground helping to dispose of the accumulation. Many of the newer houses have failed in Chile, leaving the more substantial houses, which is a sign that when business revives it will be on a safer, sounder, and more permanent basis.

Considerable construction work is being inaugurated by the Chilean Department of Public Works in connection with the development of railways, nitrate, copper and other mines, agricultural resources, the southern forests, and vast hydraulic assets. The central section of Chile may become a manufacturing section through the development of its hydro-electric resources.

A loan of $25,000,000 was recently authorized by the Chilean government for the improvement of state railways and the payment of deficits in the government treasury for the last three years. President Allessandri is championing the establishment of the Central Bank as a means of stabilizing financial conditions in Chile. The crops are in excellent shape.

United States exported to Chile in January, 1921, $12,645,525, as against $9,851,550 in January, 1920. We imported from Chile in January, 1921, $8,041,581, and in January, 1920, $6,704,753.

SOUTH AMERICAN PROSPECTS

SOUTH America, generally speaking, is a raw material producer. Its manufactures are of minor importance and the people of all the countries of South America are acutely responsive to those great world drifts of inflation and deflation which seem to come in cycles. That being the case the entire continent is the first to feel the effects of the recurring periods of a lessened demand and curtailed production and reduced buying of raw materials by importers and manufacturers in the United States and in the other industrial countries.

But raw material countries are the first to experience the effects of a world recovery, and at no time can the South American situation be intelligently considered without giving due heed to the part which the European industrial depression has exerted upon it. During the past year we have only bought from South America what we had to buy. South America turned to Europe but finds the same situation as that confronted by American exporters who wish to sell in that market, a powerful demand and an appalling shortage of goods, but neither funds nor credit with which to pay.

The countries of South America are holding vast quantities of raw materials and Europe needs them sorely, but the mechanism of getting together has not as yet been constructed. This seems to be a field for the economist, the financier, the statesman, and the man of common sense and enterprise.

In the meantime South American buyers of manufactured goods continue to take their orders in this country, although we buy very little of her raw material. The result has been that with Europe out of the three-cornered exchange arrangement between North America, South America and Europe, which in pre-war years prevented such violent exchange disparities as now exist, the exchanges between the United States and South America have reflected only the trade between the two and have naturally gone to such extremes as make business problematical.

The difficulty which our exporters have in collecting drafts drawn against South American customers are largely due to the fact that, like the precipitant world drop in commodity prices, neither American exporters nor South American importers foresaw such changes in the exchange as have taken place. It takes a long time to receive goods ordered by South Americans in the United States and the goods ordered in the past three or four months have arrived at their destination only to face an exchange and a price situation which made their sale without losses impossible.

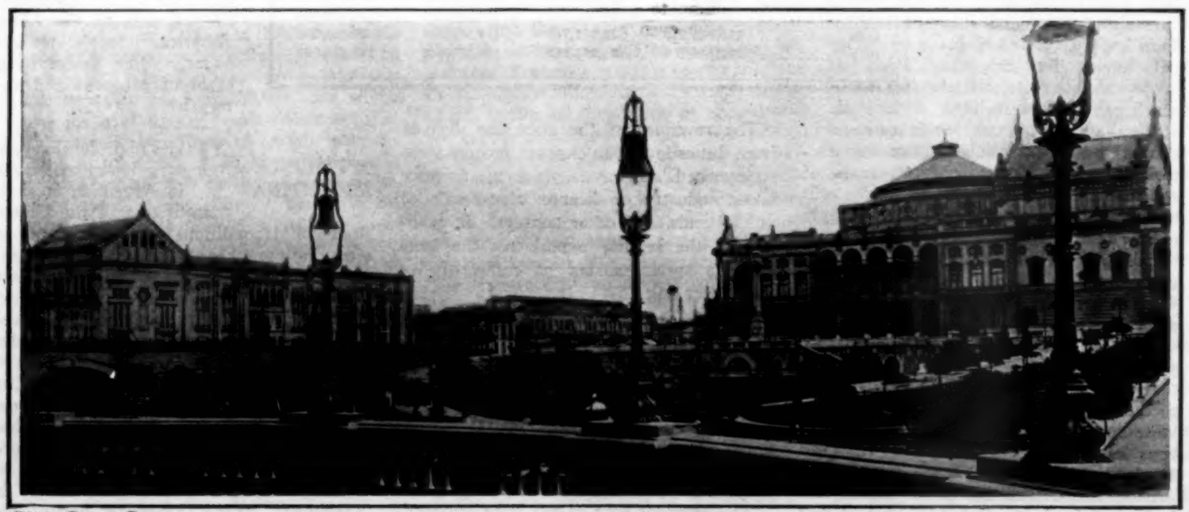


Photo Brown Bros.

PUBLIC SQUARE IN SAO PAULO

This is the capital of the state of Sao Paulo, Brazil, which produces more than one-half of the total Brazilian coffee crop

Money, Banking and Business

Commanding Your Banker's Support

How Business Men, by Analyzing Plant Output and Market, Can Stabilize Production and Obtain Banking Co-operation

By **C. E. KNOEPPEL, of the Firm of C. E. Knoeppel & Co., Inc., Industrial Engineers**

LONG practice, as well as the very exigencies of his work, compel the banker to become an analyst who accustoms himself to observe and weigh comparative merits and demerits of a business proposition. If, as often happens, he inclines toward old ways rather than new ways, he is merely depending upon his profession's age-old dread of the unknown, as compared to daily repetition of established customs and methods. The banker was the world's first specialist—and like any other specialist he sometimes concentrates so closely upon the details of familiar things that he lacks the breadth of vision that a wider education or practice would have brought to him.

Granted that banking is primarily interested in **security**, the wise banker makes painstaking inquiry into the policies of any business which applies for financial credit or accommodation. The banker knows that if the borrower's business is founded upon settled, definite and prudent policies, which in themselves are fair, the organization is always certain to be stable from the financial viewpoint.

Besides being settled, definite, and prudent, your bankers have every right to assure themselves that your policies are sufficiently flexible to permit their maintenance through times of depression or expansion.

Policy Cannot Be Unchanging

It goes without saying that a policy may be appropriate at one stage of a business development, and quite inappropriate at some later time. This is true no less of governments or sections than of individuals or business organizations. For example, once the German Empire was established on the basis of confederating separate small governments, the Chancellor's policy changed to one of peace, in order to perpetuate the federation. Similarly in the present agitation for and against American revision of import tariffs, the South evidences a leaning toward higher tariffs upon cotton products since industrialism has made the South a cotton-manufacturing zone. Conversely, New England, whose factories benefited by earlier help from the McKinley and other tariffs, was enabled to perfect its machinery and process operations to a point where it is better able to meet foreign competition, and therefore is somewhat less insistent to further maintenance of the tariff "wall." But New England is keenly interested in getting its raw material with minimum import-tax cost.

There is especial aptness at this time in the banker's attitude toward aiding the return to normalcy, because the problem of getting business in times like these is so intimately related to the problem of price-setting, and therefore to the problem of adequate financing of industry.

What the Banker Knows

The banker knows that in periods of reduced demand, costs of production are so high that prices based on them will not secure the required amount of business to operate plants at full capacity, with the result that costs are likely to be ignored in price making.

On the other hand, the banker knows that in periods of expansion costs are low, and that prices based on them are less than the plants are able to get for their products.

He knows further that there is only one time in a year when there is a positive relation between costs and prices and that is when a plant is operating at normal capacity.

Unquestionably business flows toward concerns whose prices reflect normal operating conditions. However, with salesmen's efforts on the one hand to make prices low enough to induce orders; and with the plant's efforts to get enough volume to prevent short-time operation or the even more expensive shutdown, a combination of pessimism and fear is developed which induces many a firm to take chances, beyond the limits of what would be their own good judgment under ordinary circumstances.

There is no need of shutting eyes to the fact that in times like these losses must be sustained. The intimate problem is to predict how much those losses will be, and how long they are likely to continue before an upward trend sets in.

You wouldn't like to start on a drive into unfamiliar territory without knowing how much gasoline is in the tank. Yet the trend and expectation of business at present is in exactly a similar position. Although some few concerns may be selling at a profit, the great majority can only be selling at the cost to produce, or below it.

Determining Losses

It is one thing to lose money knowingly and blindly, but if losses must occur, it is infinitely better to do so with your eyes wide open. Being pretty well convinced that you must lose **some** money before getting back to normal, you are interested in substituting for guesswork some plan that will allow considering such losses as matters of intelligent, scientific determination, arrived at systematically. To neglect adoption of such a plan is to play the business game like the player who bets without looking at his hand.

By ascertaining the normal capacity of plant, which may vary from 75% to 85% of full capacity; by standardizing overheads; by determining fair standards of performance per hour for the various operations; and by using current prices for labor and material, it is possible to know what normal costs would be. Adding a normal profit will result in **prices which reflect normal conditions.**

You may say that selling goods on basis of an anticipated normal means "playing the market short." My contentions are however:

(a) Inasmuch as you cannot at this time sell goods for the prices you would like to get for them;

(b) Inasmuch as you must pocket some losses until normalcy is again reached;

(c) Inasmuch as prices that are based on pessimism and fear are very likely to be ruinous in the end.

Why not play the market short, if you can do so willingly and knowingly—but SAFELY? Why not put these losses (which are due to present abnormal business conditions) where you can see them and analyze them, so as to make them your guide for later decisions?

The Rule to Adopt

Justification, then, for such procedure will come from your adoption of this rule:

Charge the difference between actual and standard overhead into an adjustment account, the balance of which can be carried into profit-and-loss at the end of the year.

It is plain that this charge will decrease as you approach normal, and that it will cease altogether as soon as normal is reached. Moreover, as you go above normal and reach full capacity, the total charges will be offset (in whole or in part) by credits to this adjustment account.

(*Continued on page 682.*)

Progress Toward Readjustment

Fall of Prices—Readjustment Incomplete—Foreign Trade Balance Growing—Activity of Credit

By H. PARKER WILLIS

AS the new year advances toward the end of its first quarter, two things become more and more evident. The first is that the period of what has been called readjustment, is likely to be more extended than had been forecast; the second is that the restoration of prosperity will be slow and gradual. Those who have predicted a very definite improvement in business beginning at a specified date, early in the Spring, have gone far enough to know that they and those who accepted these predictions must be disappointed.

What indicates more clearly than anything else the fact that readjustment is still progressing and has not reached its end, is the continuous recession of prices. The accompanying graph shows a still further fall in commodity values and this agrees with the most recent index number issued by the Government, which indicates a fall of about nine points, or approximately 5% during the month. Coupled with the steady recession of the general price level which although somewhat "slowed down," is nevertheless going forward, is the equally interesting fact that in some industries there is a refusal to readjust prices, which has thus far been made good by the presence of large capital and resources.

Readjustment in Industry

The outstanding example of this sort is seen in the steel trade where the United States Steel Corporation has thus far been able to maintain its prices at the level established after the Armistice, in accordance with the recommendations of a Committee of Government representatives. The latest figures show a further recession of 639,000 tons. Railroad rates, which have so far reaching and subtle an influence on costs of production, are of course fixed, and although railroad managers desire to change some of them, both legal requirements and the financial problems of the roads would prevent it. Retailers and middlemen have thus far succeeded in resisting the complete adjustment of their price level to correspond with changes of the wholesale price level. They have done this in the belief that the wholesale price level would probably "come back" to a certain extent. Whatever this "come back" may amount to it is clear that to go on reckoning upon it means the retardation of complete readjustment. Nevertheless there has been a drop in living costs which is reflected in the retail price index issued by the Bureau of Labor Statistics and which shows a drop of 6 points or about 4½% during the month ending January 31. Experience in the steel industry is highly instructive because it shows how difficult is likely to be the process of readjustment, in the absence of a thorough revision of prices. This is a matter which is not necessarily directly dependent upon cost of production or the essential reasonableness of prices, but which grows out of the attitude of the public mind. Building, except for sporadic improvement in New York and elsewhere, is still slowed down and other activities in which steel is largely used hold off until they can convince themselves that prices have reached bottom.

Money and Investment

Charts of money rates drawn to represent fluctuations by weekly periods show a pronounced reaction during February and March from the relatively lower level which had been attained at the end of January. This is in opposition to views which have been expressed in various professional quarters, but it would seem that there are many factors which fully account for the maintenance of a fairly high rate for call and time funds parallelling a similarly high rate in commercial paper. Among these factors, some of which have very slowly revealed themselves, are the continuous inability of banks in the south to liquidate their cotton holdings and the lesser inability of banks in the grain regions to obtain settlement from their customers. There has been some improvement in the Northwest but it is doubtful whether the change for the better in the South has been very pronounced. A large sum is undoubtedly tied up in carrying large unliquidated export balances. The fact that the Government has succeeded in passing so many of its certificates of indebtedness into the hands of capital investors has relieved the banks correspondingly but, of course, cuts off a corresponding amount of funds from the investing public which with others have been available for new enterprises. Depressed conditions in railroad earnings have naturally placed some of the roads under the necessity of obtaining current accommodation to an extent that would not otherwise have been requisite. Behind these various factors is the condition that capital demand is very intense all over the world and that as soon as a tendency to reduction in rates becomes apparent there is an immediate effort to take advantage of it by the offering of securities on the more favorable basis thus presented.

Spring demands are now beginning to be felt in the growing regions and they will tend to cut off the flow of funds to financial centers which has been moderately in evidence during winter months. The indications on the graph of money rates thus point upward and while there are counter-failing factors to offset those enumerated, the influences tending toward the maintenance of rates upon a relatively high level are powerful. The belief that the depression in business would result in freeing large quantities of bank funds which would make their appearance in the call market, has not been warranted by the outcome, but on the contrary, bankers are finding themselves unable to meet the demands of customers as fully as they would be glad in other circumstances to gratify them.

Production Conditions

Production indexes show that the general output of the country is still on a restricted basis which shows only a very limited upward movement. Taking the chart for pig-iron production as well as that for unfilled orders in the steel industry, the observer would be led to believe that the downward trend is still continuing and is even more pronounced than heretofore. This on the whole is not a warranted conclusion, for the reasons already referred to in connection with the steel trade above. The steel industry, being one in which readjustment has been incomplete, should not be taken as a criterion for all other industries. There has been distinct improvement in textiles, leather, and some other important items, but it is still a fact that, as shown by the Bureau of Labor Statistics' figures for unemployment, the productive output in many industries is at a relatively low ebb. A favorable aspect of the situation is seen in the fact that stocks of goods have in many lines become more and more limited so that middlemen and retailers are finding themselves obliged to place orders in order to keep the needs of their customers supplied. How soon production will actively increase, however, is in no small measure dependent upon the development that takes place in connection with export trade.

Foreign Trade

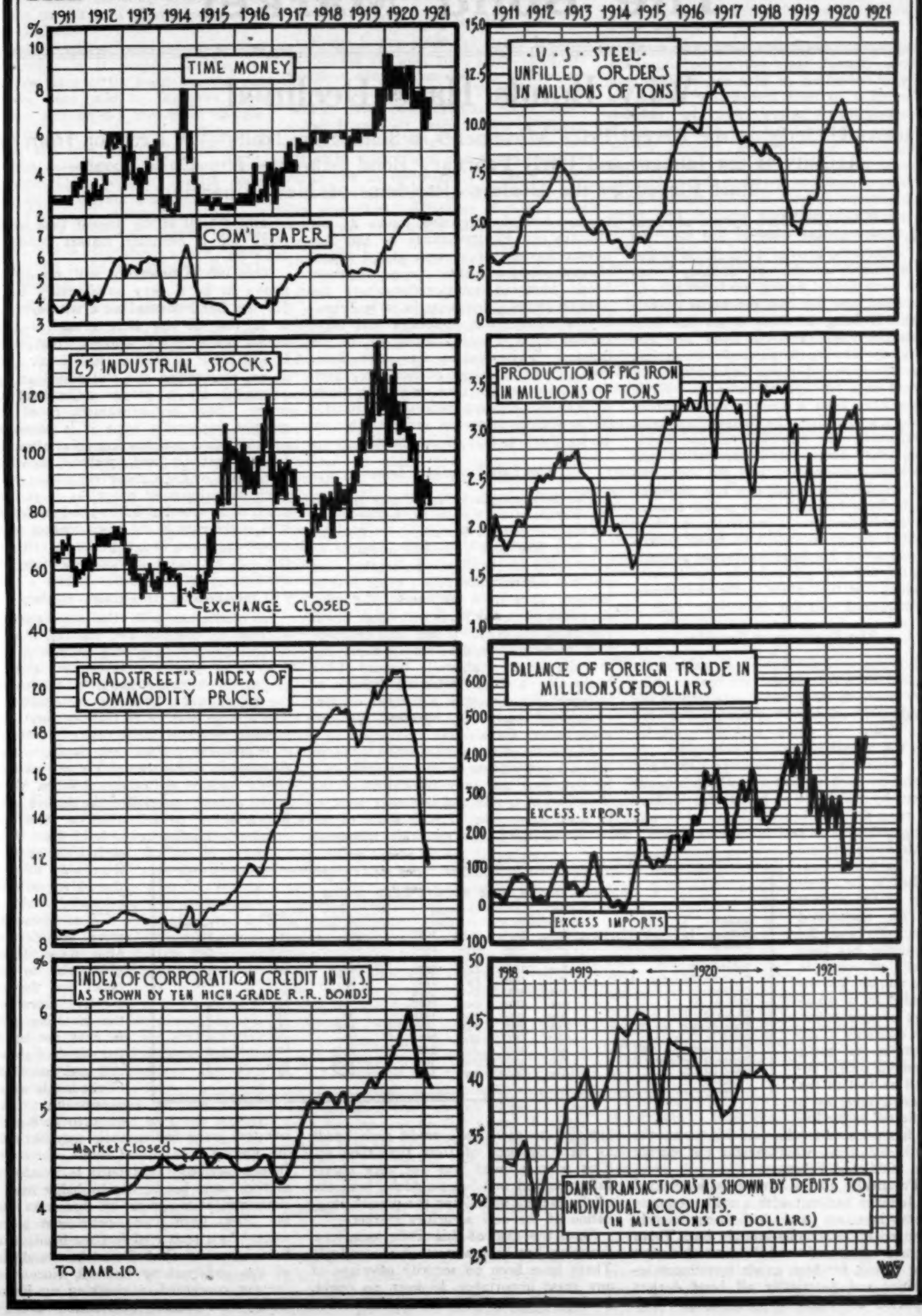
From this point of view foreign trade does not hold out the discouragement that is ordinarily thought of. The latest returns of the Government show a trade balance for January in our favor amounting to $446,000,000. There had been some decline in exporting but not a very serious one, amounting only to $67,700,000 as compared with January, 1920. The real falling off came in imports which were only $269,000,000. This situation evidently means that whereas our markets are not receiving a large supply of goods from abroad our producers are still succeeding in sending a very considerable volume of goods to other countries. This should mean an increased dependence of the domestic consumer upon home production, so that, regardless of the various difficulties attendant upon the export trade, the inference to be drawn from the figures points to improving demand on the part of consumers for the products of manufacture. Such an analysis is supported by the circumstances that detailed figures of exports show that our trade in manufactured exports has held up well, so that it is not, as generally stated, a fact that the predominating bulk of our great trade with foreign countries consists of agricultural staples.

Activity of Credit

While there has been comparatively little restriction of credit in the aggregate as yet there has been a marked decline in the activity of credit. This is well shown by the figures for debits to deposit account at the clearing house banks of the country.

(*Continued on page 724*)

THE TREND OF MONEY, PRICES AND PRODUCTION



The Bond Market

Why Bonds Have Declined

Factors Underlying the Recent Price Movements in Some New Issues — A Reaction from the Activity of the January and Early February Bond Market—The Chile Loan—Part Played by the Dealers—Problems of New Financing

A DISCONCERTING feature of recent bond market sessions has been the increased activity at declining prices in a number of the new security issues that were floated during the latter part of last year, and the first six weeks of this year. Trading in these issues has been unusually heavy and the trend has been distinctly downward, although the decline has not extended much beyond a point, except in a few special instances. While there have been a number of disturbing factors, among them the German Indemnity Conference, the unsettled railroad situation, the uncertainty surrounding the Burlington refinancing, and the approaching income tax period, any one of which might have brought about a fair amount of liquidation, it is necessary to look further for a reason, since these factors would affect the bond market as a whole and would not give rise to the heavier trading that took place in the new issues, as compared with the old.

The Fundamental Trouble

Looking further, then, it seems entirely logical to attribute the decline in these new issues to what some have termed the "undigested condition" of the market. No less than three times since the armistice has the investment market undergone special weakness in new security issues and each time such weakness has been brought about by the desire of investment bankers to reap the full benefits from what was supposed to be a real investment demand. This overeagerness has each time resulted in the flooding of the market with undigested securities and the sequence has been declining prices in the market, accompanied by a cessation of new security offerings. We seem to be going through such a period as this at the present time, as is indicated by the lull in financing since the last big issue, the Chile 8% loan, was brought out during the middle of February.

Practically all the new securities floated in January had met with a ready response from investors and had been eagerly snapped up as soon as brought out. There seemed to be an insatiable demand during that month for high grade investment securities and practically all bond dealers reported an excellent distribution. The books on such attractive issues as the BELGIAN 8s, PENNSYLVANIA 6s and ATLANTIC REFINING 6½s were closed almost simultaneously with their opening and these bonds advanced substantially above the offering prices. Beginning in early February, a change was noticeable and there seemed to be a slight falling off in the demand. There was no diminution, however, in the offerings of new securities, there being no less than nine large pieces of financing, totaling more than $150,000,000 in addition to several smaller flotations during the first half of the month.

The Last Prominent Issue

The last prominent issue was that of the REPUBLIC OF CHILE 8s, which came out on the 15th of the month. This was the first time that Chile had appeared as a borrower in the American market, and the loan was watched with a great deal of interest, since upon its success depended the result of similar loans with other South American countries. It had been supposed that the bonds would be readily taken, but they did not go at all well. Instead of the books closing shortly after the opening, as had been the case with a number of previous bond issues, they remained open for some two or three days.

At the end of this time it was announced that all participants in the syndicate had been notified that only two-thirds of the issue had been sold and that they were to be held responsible for their share of the remaining third, the syndicate managers applying to each one's credit such bonds as were disposed of from that time on. This announcement was not very cheerfully received, and has, no doubt, been one of the factors underlying the present stagnation of the new securities market.

Since the date of this Chile loan, new financing has been almost at a standstill. There have been no security offerings of any great importance, bankers, no doubt, having come to the conclusion that a breathing spell at the present time would make for a healthier market condition later on.

This lull in financing will, no doubt, prove to be a very satisfactory tonic for the bond market as a whole, since it is one of the best remedies that could have been applied just now. It will serve to clear up such weak spots as are outstanding and will afford an opportunity for a proper adjustment of prices. Such an adjustment is of the greatest importance since it is necessary to establish a new starting point after the feverish activity and, perhaps, fictitious price level of the early weeks of the year. Such a realignment of prices is just as much of an essential in the bond market as it is in the case of the stock market when quotations have had a prolonged rise or fall. A period of extreme dullness and inactivity is invariably the sequel.

Influence of Investment Dealers

In connection with the new security offerings of the past two months, it may be of interest to stop long enough to see just what part the investment dealers played in bringing about a decline in the price level. There is no doubt but that a large number of these dealers were actuated by a speculative desire in entering their subscriptions for these issues in that they hoped to be able to get one or two points' profits on resales. When these profits did not materialize, the dealers were forced either to sell them at the best obtainable market or to hold them until such time as they were able to pass them along to their clientele.

The downward price tendency of the new issues gives rise to the belief that the absorptive power of the investing public was not up to the supposed standard, and that many of the bonds which presumably had gone to permanent investors were finding their way back to the market. In other words, the term "oversubscribed" as applied to a number of these new bonds, has probably been a misnomer, if we mean by that term that the bonds have found permanent placement. As a matter of fact the bonds have been oversubscribed from the standpoint of the underwriting bankers, since they are not concerned in checking up immediately the actual distribution brought

DECLINE IN SOME RECENT BOND ISSUES

Security	Maturity		Offering Date		Offering Price	Present Price	Decline
Belgian 8s	Feb.,	1941	Feb.,	1921	100	96¾	3¼
Denmark 8s	Dec.,	1945	Dec.,	1920	100	96½	3½
French 8s	Sept.,	1945	Sept.,	1920	100	96½	3½
Belgian 7½s	June,	1945	June,	1920	97¼	96⅛	1⅛
Danish Municipal 8s	Feb.,	1946	Feb.,	1921	98	96½	1½
Christiana 8s	Oct.,	1945	Oct.,	1920	99	95	4
Zurich 8s	Oct.,	1945	Oct.,	1920	99½	95	4½
Berne 8s	Nov.,	1945	Nov.,	1920	99	94	5
Tide Water Oil 6½s	Feb.,	1931	Feb.,	1921	98¾	95¼	3½
Sinclair 7½s	May,	1925	May,	1920	98	90	8
Pan American Pet. 8s	Aug.,	1930	Aug.,	1920	94½	91½	3
Kennecott Copper 7s	Feb.,	1930	Feb.,	1920	99½	92½	7
Goodrich 7s	Apr.,	1925	Apr.,	1920	98¼	90	8¼

about by the dealers. But should investigation be made, it might very possibly be found that many bankers have reported blocks of bonds all sold, when actually they have not yet been offered to investors by the dealers.

It would be interesting to know just what the situation is at present in this respect, how many of the bonds recently put out have been sold to investors, how many are still on the shelves of dealers, how many have been resold by them at a sacrifice, and how many are tied up at the banks as collateral for loans. Such knowledge might, perhaps, furnish some clue as to the current weakness in these issues. Permanent distribution is the goal sought by all investment banking houses, and until this is accomplished, new financing is certain to be accompanied by serious drawbacks.

Recently Prominent Issues

Among those issues which have been prominent in the declining market of the past two or three weeks, have been the external obligations of a number of the foreign governments which recently sought loans in this market. Of these the principal offenders have been the BELGIAN 8s, the DANISH 8s, and the FRENCH 8s. The former recently registered a low of 96¾ as compared with the original offering price in January of 100, a decline of 3¼ points, and the latter touched a low of 96½ compared with the original offering price last October of par, a decline of 3½ points. The FRENCH 8s also sold down to 96⅔, a loss of 3⅓ points from their offering price of par last September.

Trading in all three of these issues at the low figures was unusually heavy, and there appeared to be some special liquidation going on. The weakness in the Belgian and French bonds was, no doubt, due in part to uncertainty as to the outcome of the conference in London on German reparations. It was feared evidently that if Germany failed to accede to the terms of the allies, an invasion of that country might be necessary and that in such an instance France and Belgium would be more likely to suffer than the other countries. This was probably the main factor underlying the decline in these issues. As for the selling in the DANISH 8s, there seems to be no plausible reason.

The break in these three issues has carried them down to a point where the investment yields are exceptionally attractive, and it would seem that the investment demand would soon operate to stay the decline.

Among other European issues recently floated, the DANISH MUNICIPAL 8s put out in January at 98 and the BELGIAN 7½s offered last April at 97¼ were soft but the declines here did not run over two points in the case of the former issue and 1⅛ points in the case of the latter. NORWAY 8s sympathized with the decline in other foreign government bonds, but there was no special weakness in this issue, although it sold down to 99 as compared with the original offering price last October of par. The SWISS 8s brought out last July at par stood out among the European issues for their strength, the price being maintained at some 2¾ points above the issue figure. All the European municipal issues offered in this country last year are now obtainable at prices well below the original offering prices. This is true particularly of the ZURICH 8s, BERNE 8s and CHRISTIANA 8s, which have declined on an average of 4½ points.

Industrial Bonds

Of the larger industrial issues brought out during the past year, three stand out for their conspicuous declines. These are the KENNECOTT COPPER 10-YEAR 7% bonds, which have now declined some seven points from their original offering figure, the GOODRICH 5-YEAR 7% notes which are off eight points, and the SEARS-ROEBUCK serial one to three-year 7% notes which are down about four points on the two late maturities. All three of these issues were sold to provide additional working capital and to reduce current liabilities and their selling price has been affected by the readjustment of commodity prices, which took place last year. Reduced earning power of the companies concerned, together with the uncertainties connected with future operations, have lowered the investment standing of bonds.

With one or two exceptions the bonds put out by the independent oil companies are now selling below the issue prices. A notable exception is the 3-year 7% notes of the TEXAS COMPANY, which show an advance of about half a point. TIDE WATER OIL 6½s and GULF OIL 7s, both offered in February, show losses, the former 3 points and the latter 1½ points. Similarly PAN-AMERICAN PETROLEUM 7s are off about 3 points. SINCLAIR OIL 7½s, brought out last April, have suffered the greatest decline, being now quoted some 9 points below the issue price.

STANDARD OIL bonds, on the other hand, maintain a firm tone and uphold their reputation as high-grade investment securities.

Railroad Bonds Firm

Among railroad issues practically all the 10-year 7s offered last year by the stronger companies hold firm in spite of the unfavorable railroad outlook. Some selling came into these issues, no doubt, as a result of the refusal of the Interstate Commerce Commission to approve the plan for refunding the Burlington bonds, which fall due on the first of next July. This action of the commission was entirely unexpected, and the short time that is left in which to arrange this large financing program has undoubtedly caused railroad investors some worry. In view of the high credit and standing of the three roads involved, however, there seems little doubt but that a suitable financing plan will be drawn up long before the bonds become due.

Another disturbing factor in the railroad situation has been the earnings outlook, but it is felt generally that those interested in the future of the railroads will work out the problem of inadequate rates and high operating costs so that investors may have little to fear on that score. Bankers realize that the railroads will have to do considerable financing this year to carry on improvement and betterment work and will undoubtedly see that the interests of railroad investors are well protected.

Future Financing Prospects

As to the outlook for future financing, it is rather difficult to make predictions as to when offerings will again be made in volume. In view of present conditions, however, it is very probable that bankers will hold off until a successful outcome is more assured than is the case now. There is also an inclination to wait until the general bond market displays more lift and more absorptive power.

There is considerable financing to be accomplished in the near future, and negotiations are said to be under way at present which will lead to a large number of new security offerings. These offerings will be distributed about evenly between industrial and railroad corporations. The latter will need considerable funds to carry on much needed improvements, to take care of equipment needs and to meet maturing obligations. The former will probably continue to resort to the bond market for the purpose of supplying the working capital necessary to carry on their operations.

Easier money conditions will be a factor leading to an improved bond market and many experienced observers are looking for a pronounced change in this direction, following the date of the first income tax installment.

CUMULATIVE AND NON-CUMULATIVE

These terms are always used in connection with the dividends on preferred stock issues. The cumulative preferred stock is a rather modern invention and most of the "old-line" preferred issues will be found to be non-cumulative. The latter term is abbreviated in stock descriptions by the initials "n.c." which will be found following most of the older established railroads having preferred stocks, and that have not passed through recent reorganizations, for example Atchison preferred, St. Paul preferred, Southern Railway preferred or Baltimore & Ohio preferred. On the other hand, the preferred stocks of such reorganized roads like Missouri Pacific, Pere Marquette, Gulf Mobile & Northern are cumulative.

Other things being equal, a cumulative preferred stock is ordinarily more attractive than a non-cumulative issue, because the "cumulative" provision prevents the common stockholders from getting anything until the preferred stockholders get their full yearly dividend on a regular basis.

It should be noted that the holder of a cumulative preferred issue has no better rights than a holder of a non-cumulative stock so far as demanding dividends are concerned, although some corporations provide that when such preferred dividends are in arrears, the preferred stockholders have the entire voting power until a settlement is made. It depends upon the terms of issue.

The date when dividends commence to accumulate is from the last regular dividend payment, or the last period when failure to pay occurred, or—in case no preferred dividends have ever been paid, from the date of issue. However, it sometimes happens that a date is fixed by the corporation at the time the cumulative preferred stock is created, stating when preferred dividends shall commence to accumulate. The usual term found in this connection is "Cumulative after April 15" or some other date.

The Premier Rail-Security Investment

Equipment Trust Obligations, Issued in Two Forms, Occupy First Rank—Priority Recognized by the Courts

By **LELAND E. STOWELL**

THE question frequently confronting the investing public is the strength of an equipment trust obligation as an instrument of credit.

Let us first determine just what is meant by equipment trust, and then examine the two best known forms under which these obligations are issued.

It is a common practice for railroad companies in purchasing cars, locomotives, etc., to mortgage the same and sell securities secured by this mortgage to raise the money necessary for the payment of the equipment. These obligations are known as "Equipment Bonds" or "Notes" and are usually issued to mature serially in from one to ten years. By this method the holders of the longer term issues are amply protected, for their equity increases as the earlier maturities are paid.

Two General Forms

Generally speaking, there are two forms under which equipment trust obligations are issued, one the so-called Philadelphia Plan and the other the so-called New York Plan. Both of these forms have been approved by the Investment Bankers Association when a sufficient initial payment has been made to secure the company's equity and the indenture is carefully drawn.

Under either form a trust estate is created; and the deed of trust which conveys the title of the property or equipment is held by the trustee until all the conditions of the instrument, including final payment, have been met.

Under the PHILADELPHIA PLAN, the most popular plan under which this class of security is issued, the title to the equipment covered by the mortgage or indenture is lodged with a trust company and the equipment is leased by the railroad for a certain semi-annual or annual rental, sufficient to pay the interest on the outstanding equipment bonds and to retire the amount maturing each year. As long as the railroad pays the rental regularly it has the use of the equipment, and when the last rental has been paid the title to the equipment passes to the road.

The so-called NEW YORK PLAN embodies practically the same safeguards, except that the bonds are a direct obligation of the railroad company secured by a lien on the equipment purchased, the title for which remains in the name of a trust company through whom the purchase of the equipment is nominally handled until the series of equipment bonds is entirely paid.

The obligations are usually issued up to about 75% or 80% of the cash value of the equipment.

Their Legal Status

A glance at the legal status of the trusteeships mentioned above, shows us that they have been so well established by the courts that there is no question as to the rights of the holders of these obligations in an action at law. In a reorganization where the holders of the general and junior lien bonds are frequently compelled to accept a reduction, and exchange their holdings for new securities in the reorganized company, no such compromise is forced upon the holders of equipment trust obligations.

When you stop to consider that the equipment of a railroad is the tool with which it works, and is so regarded by the courts, you can readily understand the truth of the statement that few, if any, defaults in this class of security have ever occurred in this country.

AN INTERESTING POSSIBILITY

MERRILL, LYNCH & CO. point to the fact that the Superintendent of Banks of New York State in his report for 1920 to the Legislature recommended that equipment bonds be designated as legal investments for saving banks in this state, and commented: "If this change should take place, equipment bonds would probably sell with high-grade 'legal' railroad bonds which now sell on less than a 6.00% basis, thus affording a profit to those who buy now on from a 6.20% to a 6.50% basis. American railroad equipment bonds have a record which is second to that of no other class of securities except United States Government bonds. We are advised that less than half a dozen issues have ever defaulted in either principal or interest."

TEN ACTIVE EQUIPMENT BONDS.

Name	Maturity	Rate	Bid*	Asked*
Atlantic Coast L.	1922-'36	6½	7.00	6.35
Chicago & N. W.	1921-'23	4½	7.00	6.35
Illinois Central	1921-'27	4½	7.00	6.35
Louis. & Nash.	1921-'23	5	7.00	-6.35
New York Central	1921-'32	4½	7.15	6.30
Northern Pacific	1921-'30	7	7.00	6.35
Reading Co.	1921-'27	4½	7.00	6.35
Southern Pacific	1921-'25	4½	7.00	6.35
Union Pacific	1924-'35	7	6.75	6.25
Virginian Ry.	1921-'30	6	7.85	6.50

*Securities of this class are dealt in on a yield basis.

A Case in Point

Emphasizing the rights of the holders of equipment bonds, we cite an extract from an order authorizing the extension of equipment trust bonds in the United States District Court of Northern Illinois dated June 22, 1915, and made by the Honorable George A. Carpenter, Judge.

In the above case it seems that certain equipment obligations were nearing maturity and the receiver of the railroad being without funds to meet them, applied to the court for an order authorizing him to enter into negotiations with the holders of the equipment obligations for the purpose of extending the maturities of the same. The court not only approved the order, but authorized the interest rate increased to 5½% per annum. Section 2 of the order is quoted herewith and it shows the high regard in which this class of security is held by the courts.

"Second: That such of said Series, E, F, G and H equipment obligations as shall be deposited under and pursuant to the terms of said agreement of the receiver, when executed, shall be a lien upon the railroads, franchises, property, and premises of the defendant, Chicago & Eastern Illinois Railroad Company, now in the custody of this Court, through its Receiver, excepting, however, (1) all of the coal properties which are subject to the lien of the Purchase Money First Lien Mortgage of the defendant: (2) all of the property which is subject to the lien of the First Mortgage of Evansville Belt Railway Company: (3) all of the property which is subject to the lien of any mortgage of Evansville & Terre Haute Railroad Company: and (4) all of the property of the Evansville & Indianapolis Railroad Company: and said lien shall be security for the debt evidenced by said equipment obligations and the coupons appertaining thereto, and for all of the agreements, covenants and promises of the Receiver under said agreement, or entered into by virtue thereof, including the obligation to pay interest on said obligation severally, at the rate of five and one-half per cent per annum, as provided in said agreement, and to pay the principal of said obligations upon maturity, as extended; such lien shall be in addition to the lien upon said equipment, and shall rank superior to the lien of each and every mortgage on the property of the defendant not excepted from said lien as hereinbefore provided."

How Holders Have Fared

The treatment accorded the holders of this class of securities meted out by the reorganization managers of the large systems which have been reorganized recently is set forth in the following:

WABASH RAILROAD COMPANY: Reorganization plan dated April 28, 1915. In the

(*Continued on page* 716)

Atchison, Topeka & Santa Fe Railway

The Atchison System

A Straight Railway Proposition — Steady Growth of Earnings—Most of Its Financing in Form of Convertible Bonds

By JOHN MORROW

ATCHISON, TOPEKA & SANTA FE RAILWAY is the official title, but in the Eastern securities markets the system is referred to as "Atchison," while in the West shippers know the line as the "Santa Fe." Like so many of the roads serving territories west of the Mississippi, Atchison has been a pioneer, and, like so many others, suffered the hardships of pioneers and was caught in the reorganization epidemic of the middle nineties.

The original Atchison, Topeka & Santa Fe Railway was chartered in 1859, and the present company was chartered in 1895 as a reorganization of the original road. It took perhaps five years for the readjusted corporation to find itself, but since 1900 its progress has been certain and sure. Present-day judgment ranks it as one of the premier American railroads, and its securities command a high regard in the marketplaces.

Nothing to Sell but Transportation

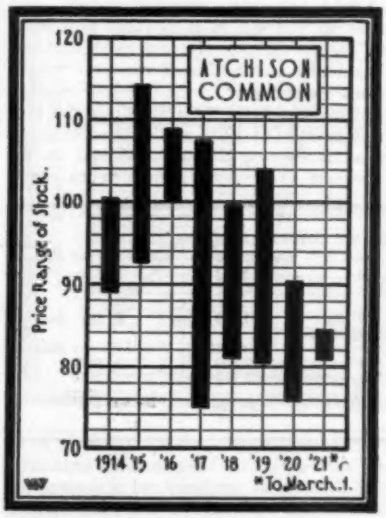
Atchison has nothing to sell but transportation, and its securities have their values based upon railroad operations almost exclusively, and these values will stand or fall on the success of the company in making profits from the transportation of goods and passengers. While Atchison has some outside investments in timber lands and some acreage in the oil district in California, it seems most unlikely that these investments ever will have any great or sustained effect upon the corporation's bonds and shares.

Unlike Southern Pacific, for example, Atchison never went in for, or at least never acquired, a great acreage of land. On the company's balance sheet as of December 31, 1919, the latest record available, "Other Investments" and "Investments, New Acquisitions," were carried at about $51,000,000, whereas $753,000,000 constituted property investment, franchises, etc., and, furthermore, all of this $51,000,000 does not represent land investments. Part of it, for instance, is placed in the Northwestern Pacific Railroad, which was constructed jointly with the Southern Pacific, running north from San Francisco. Current figures are not available, but a few years ago it was known that the oil derived from the company's land holdings was not sufficient to supply oil burning motive power with fuel oil, and purchases to supply the deficiency had to be made in the open markets.

Atchison has another claim to distinction of a decidedly positive character. Strange and wonderful as it may seem, the road has managed to earn its dividend requirements from actual operations through the period of Federal control.

Traffic High Lights

The prosperity and traffic development of the Atchison lines are bound up with the development of the Southwest. Atchison, operating 11,500 miles of road, has its Eastern terminus in Chicago and runs thence South and Southwest through Kansas, Oklahoma, Texas, Colorado, New Mexico, Arizona and California, with the Pacific Coast terminus at San Francisco. Naturally, with mileage through this territory the freight traffic of the road is made up largely of products of farm, forest, mine and well, and the majority movement of loaded trains is, of course, eastbound.



Westbound traffic consists of steel and steel products from middle West manufacturing centers and other finished goods of general character. Atchison probably gets the bulk of the wheat shipments from Kansas, carrying grain both to Chicago and, more importantly, South from the harvest fields to the big export point at Galveston, Texas. Its lines share in the movement of petroleum products from Oklahoma and Texas, the copper mines of Arizona are important freight revenue producers, and, normally, Atchison takes East about 40% of the California citrus fruit crop, not to mention important traffic in canned fruits and vegetables from that State.

When the Panama Canal was opened, the probable effect of this water route upon all rail transportation became an important subject for consideration among railroad managers. It was estimated that this competition took only from $1,000,000 to $1,250,000 in gross revenues from the Atchison in the year ended June 30, 1915, but the further and possible culminating effect could not be measured because of the abnormal traffic conditions brought on by the war. It seems altogether likely that this question of Panama Canal competition will again loom up as an active factor, but railroad managers who have made a study of conditions in the Southwest have expressed the opinion that any loss in through freight would be offset by the development of short haul traffic originating in the Southwest within the lines of the Atchison system.

From 20 to 25% of Atchison's total freight traffic is in products of agriculture, 35 to 40% in products of mines, and 21% in manufactured goods, but in the final analysis the road is dependent for prosperity upon corn, wheat and cattle, which furnish the principal buying power for the communities served by the system. During the past few years the oil boom in Texas and Oklahoma undoubtedly has been of help to the road's earning power, but this traffic is not the chief determinant of Atchison's earning power.

Growth and Development

The period from 1905 to 1915 might reasonably be called Atchison's development period from which emerged a strong well-rounded, balanced transportation system, with its standing securely established as much as the standing of any railroad could be under prevailing conditions. In these ten years Atchison spent something like $195,000,000, or almost $100 a share on the common stock outstanding in 1915, for capital purposes such as new construction, acquisition of new lines and the like. Of this total 25% was derived from current surplus earnings and the balance through the sale of securities.

To anyone who is on the lookout for sensational developments Atchison will prove a disappointment. There is nothing to be discussed in the way of "melons," or other sweet tidbits of financial gossip. The road goes plugging along, apparently

with one end in view, and that is to ever get the most out of the possibilities of its territory, always keeping in mind that a transportation system is primarily designed and constructed to carry freight and passengers. The irritating rubs of State and national regulation, ever mounting taxation, and the topsy-turveydom incidental to the war and Federal control have left no permanent scars, and the company has attracted notice only by its ability to keep always ahead of the troubles besetting. Even in 1919 the operating ratio, before taxes, was a shade under 75%, an excellent showing, all problems considered. The pre-war, and pre-Government control ratio ran evenly in the neighborhood of 66%, varying little from year to year. But in 1920 it is apparent that operating expenses consumed almost 90% of the gross revenues, but there are roads which were not able to keep the ratio down as low as that, and well managed roads, too.

It is perhaps significant that during 1920 Atchison spent heavily on upkeep, and this had much to do with the big increases in operating expenses. The outlay on maintenance of way was over 75% higher than in 1919, while maintenance of equipment ran between 25 and 30% above the totals of the year previous. It is also noticeable that these expenditures continued right through to the end of the year. Allowing for increased labor and material costs, the large increases in maintenance work would indicate the determination of the management to get at once to the problem of putting property in top notch condition, after the passing of the war emergency.

Earnings

It will be remembered that in 1920 the railroads operated under the Government earnings guarantee, or standard compensation for eight months, while for the four months beginning September 1, operations

TABLE II.—BONDED DEBT AND COMMON STOCK

	Bonded Debt		Debt per Mile		Interest per Mile	
June 30, 1906	$102,000,000		$12,093		$ 483	
Dec. 31, 1919	255,553,458		24,852		1,015	
Changes	$12,615,658	Inc.	$7,779	Dec.	$ 244	Dec.
	Common Stock Capitalization					
	Shares		Per Mile		Dividends per Mile	
June 30, 1906	$102,000,000		$12,093		$ 483	
Dec. 31, 1919	222,873,500		19,408		1,162	
Changes—Increases	$120,873,500		$7,815		$ 679	

were conducted under the provisions of the Transportation Act of 1920 with no actual guarantee of earnings on the part of the Government. Giving to the Atchison 1920 income account, the standard return for the eight months, and taking actual operations for the remaining four, it may be figured or at least estimated that earnings available for dividends upon the $222,873,500 common stock were equivalent to at least twice the dividend rate of 6%. In other words, Atchison probably will show a surplus of $13,000,000 or over after payment of all dividends, and charges. During the four months' period from September 1 the freight and passenger rates increases were in effect. Most of Atchison's mileage is in the western territory, where the increase granted in freight rates was 35%.

A tentative estimate of earnings of the company from actual operations during 1920 as distinct from the standard and guaranteed return would indicate that the 6% dividend was just about earned. These estimates are, of course, subject to revision when the official returns are published, and there may be a small difference either way, but in the case of actual earnings the importance is not great, on account of the guarantee in operation for eight months, but they serve to indicate the relatively strong position of the Atchison in the face of difficulties which many roads found practically insurmountable.

Still another estimate of Atchison's earnings may be made. As has previously been pointed out, since September 1, 1920,

TABLE I.—ATCHISON'S EARNINGS.

Year	Gross	Operating Income	Surplus for Common	Amt. Earned on Common
*1914	$111,109,770	$32,114,851	$14,475,275	$7.30
*1915	117,665,587	36,051,401	19,422,175	9.16
*1916	133,762,392	43,779,993	26,371,050	12.30
*1917	156,179,121	49,951,675	33,000,388	15.00
1917	165,529,519	48,346,700	31,976,862	14.50
1918	187,658,223	40,929,530	26,320,332	11.88
1919	209,500,004	40,888,596	31,332,090	14.10

*Ended June 30.

the roads have been "on their own." In the four months ended December 31, 1920, Atchison earned $9,000,000 more in gross revenues than in the same period of 1919, or an increase of about 11%, but reported $9,000,000 less net operating income. The loss, or the wiping out of the gain in the gross business was principally accounted for by the continued high ratio of maintenance outlay. Transportation costs, representing wages, fuel, etc., were also up, but not in such large proportion as upkeep charges. In past years Atchison has found about 36% of the total net income for the year in the last four months, and on that basis the results for the four last months of 1920 would show that the road is earning the 6% dividend on the common stock with something to spare.

Of course the last four months ordinarily are the best in the year, and also since the first of 1921 railroad traffic has been falling away substantially. On the other hand, it is reasonable to suppose that the carriers are facing a period of lower costs, and they should be better able to curtail and control outlay in the not distant future. While admittedly the railroad situation is not rosy, still the Atchison has the earned reputation of being able to exercise remarkable control over operating expenses, and of being able to save without physical impairment or loss of efficiency. If such deeds are possible in these days, Atchison may be depended upon to get results.

Incidentally it may be mentioned that Atchison does not have to earn 6% upon property valuation to show dividends earned. If the road does earn 6% upon valuation, as the Transportation Act intends, there should be a most comfortable surplus after payments to stockholders.

Financial Structure

Atchison became well known in the financial world for the using the convertible bond as a medium in raising funds, and in fact the bulk of the borrowing to build the road up to its present condition was accomplished by this method. In the period from 1905 to 1910, there were issued and sold, mostly by offerings direct to shareholders, $147,511,000 convertible bonds, all bearing 4% interest with the exception of some $26,000,000 which carried a 5% coupon rate. At the present time bonds still convertible into stock total only $8,492,000. This issue is the 4% issue due 1960, and convertible into common stock at par prior to June 1, 1923. All the rest of the convertible issues have either been converted, or else the conversion privilege has expired. Naturally the effect of this means of financing has been to keep down funded debt, and to increase common stock outstanding. In other words, the burden has been shifted from obligatory charges (interest disbursements) to optional charges (dividends). The table will show the effect of this upon funded debt per mile of road operated, and upon common stock per mile, and dividends. In 1905 when the first issue of convertibles was made the dividend rate was 4%. Now it is 6%, an increase of 50%, and paid upon over twice as much stock as was out fifteen years ago.

Conclusions

There is, of course, no question as to the integrity and standing of the various Atchison bonds. The general 4s 1995, the senior issue of the company, rank among the highest grade rail issues.

The 5% preferred stock has paid the reglar dividends since 1900, and is extremely well protected by earnings. At its present price of 78 the income return is 6.4%, and the shares may well be recommended as a conservative investment.

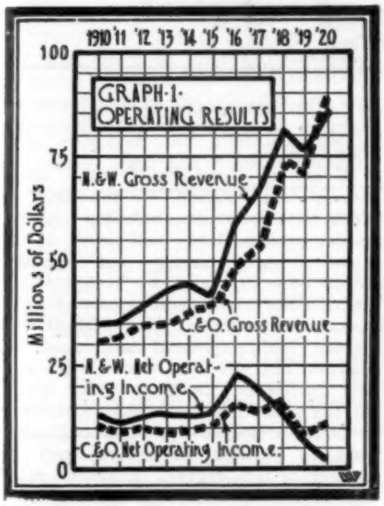
The common stock has paid 6% in dividends yearly since 1910, but the dividend record at rates somewhat lower than the present extends back to 1901 without break. We are in a business depression now, and Atchison's territory has been hit by the big break in grain prices, and by the slump in oil production. But it is likely that the worst is over, in so far as the farmer is concerned, and he will soon be looking forward to marketing his 1921 crop of winter wheat. If the yield is large, so much the better for Atchison, but even allowing for a prolongation of the sobered agricultual condition, there is no reason to doubt the ability of Atchison to continue 6% dividends on the common, and the long pull purchaser would seem to have a good chance of larger returns when more normal conditions return and the inherent earning power of the system is better able to be demonstrated.—vol 27, p. 576.

Chesapeake & Ohio Outstrips Norfolk & Western

Former's Gross in 1920 Was Larger of the Two for First Time in History—Stockholde Might Well Consider an Exchange

By ARTHUR J. NEUMARK

NORFOLK & WESTERN has long been considered one of the leading railroads of the country. Its record of substantial earnings on the common stock dates back as far as 1900, and dividend disbursements have been made regularly in every year since. In 1919, however, earnings declined sharply, due to the



strikes in the soft coal fields of West Virginia in the fall and early winter. This development was common to all the soft coal carriers of the Pocahontas district.

With the beginning of 1920 dawned a new period of trouble in the form of increased labor and fuel costs. All roads suffered under this extra burden.

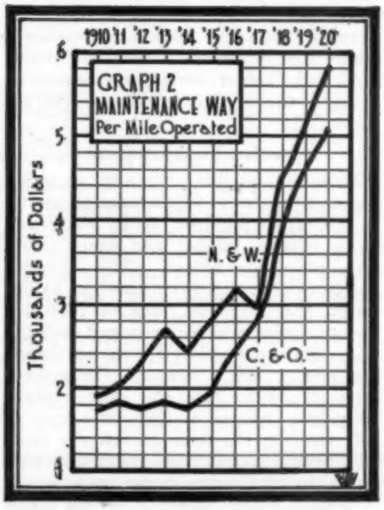
Norfolk & Western, however, suffered to a much greater extent than Chesapeake & Ohio.

For the first eight months under Government control Norfolk & Western's gross business increased some $2,000,000 and operating expenses increased about $13,400,000 over the same period of 1919. Chesapeake & Ohio's gross, however, increased $6,600,000 and operating expenses $12,000,000. This large increase in gross on the Chesapeake & Ohio lines as compared with Norfolk & Western's, brought about a change in the respective volume of traffic on the two roads. It marked the first time in the history of the two roads that Chesapeake & Ohio's gross traffic was larger than that of Norfolk & Western.

Moreover, transportation expenses on Norfolk & Western for the first eight months of 1920 were just as great as on the Chesapeake & Ohio, on $3,000,000 less business, and total transportation expenses for 1920 on the Chesapeake & Ohio amounted to a smaller percentage of gross than on Norfolk & Western, for the first time since 1910.

Since the new rates went into effect on Sept. 1, 1920, Chesapeake & Ohio has held its advantage in a greater volume of traffic handled, and especially in net income. Graph 1 indicates clearly the trend of gross and net earnings on each road since 1910.

One of two conclusions can be drawn from these facts: Either Chesapeake & Ohio is obtaining the greater proportion of the increased traffic in the Pocahontas region; or else a considerable amount of traffic was diverted from Norfolk & Western to Chesapeake & Ohio during Government operation and still continues to be handled on the Chesapeake & Ohio lines. In either case it is a situation which deserves considerable attention from Norfolk & Western stockholders.



Practically 75% of the freight traffic of each road is derived from the soft coal fields of West Virginia, both roads have equal facilities and outlets for handling this traffic, and if Chesapeake & Ohio continues to make the better showing in gross and net stockholders should not hesitate to make the switch into this rapidly progressing road.

The writer does not want to create the impression that there is any danger as to the ultimate prosperity of Norfolk & Western. No doubt this road will continue to earn and pay the regular $7 dividend on its common stock. The purpose is to show that operating results since Jan. 1, 1920, indicate, unmistakably that the greater possibilities lie in the Chesapeake & Ohio capital stock. This road is making a considerably larger gain in volume of freight traffic and is also conserving a larger proportion of its gross than Norfolk & Western, through more economical handling of the traffic.

Transportation expenses for the first eight months of 1920 demonstrate this clearly.

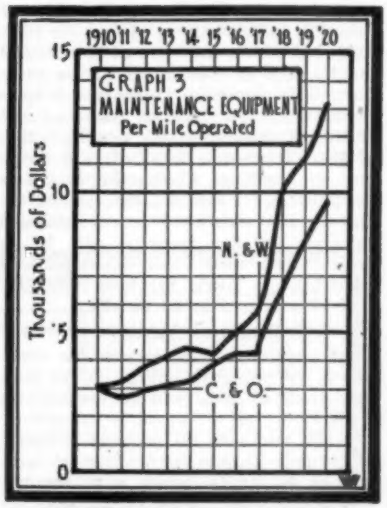
For the first four months of operation under the new rates Chesapeake & Ohio's earnings were at the annual rate of $19,340,000, equivalent to $17.50 a share of capital stock, on which the regular dividend is $4 per annum, whereas Norfolk & Western reported a balance of $14,800,000 for the same period, equivalent to but $6.70 a share on the common stock, which pays $7 a year. Very obviously the greater speculative possibility lies with the Chesapeake & Ohio capital stock. In fact one would have to look long over the stock exchange list to find a more promising railroad investment.

Two Important Questions

On the facts brought to light thus far the exchange from Norfolk & Western to Chesapeake & Ohio would seem advantageous. The two questions which would naturally arise in an investor's mind before making a change of this character would be:

1. Will my investment be as secure?
2. Will my income be as large?

For an answer to the first question it



is only necessary to look over the past record of Chesapeake & Ohio, which shows, with the exception of one year, an uninterrupted dividend record since 1908.

As to question number two, the difference in income received would be so slight as to not stand in the way of the exchange. At the present market levels the sale of 100 shares of Norfolk & Western common stock would bring approximately $9,300, with which it would be possible to buy 164½ shares of Chesapeake & Ohio. The annual dividend on 100 shares of Norfolk & Western brings the holder

income to $822.50 a year, or $122.50 more than the present return on Norfolk & Western common stock. Chesapeake & Ohio has already paid as much as $5 a year, and if the present rate of operations continues it would not be very long before an increase of at least $1 per annum would be in order.

Maintenance

After an investor has satisfied himself as to the attractiveness of a switch from Norfolk & Western into Chesapeake & Ohio, so far as principal and income are concerned, his next consideration would be: Has the road and equipment been properly maintained? Chesapeake & Ohio's maintenance of road and equipment, while not so high as that of Norfolk & Western, appears to be entirely adequate when considering that both the road and equipment of Norfolk & Western are subject to greater wear and tear. This is reflected in the road's greater traffic density, and more intensive utilization of equipment. Graphs 2 and 3 show maintenance figures since 1910.

Capitalization

The comparative capitalization of the two roads is shown in the following table:

	Chesapeake & Ohio	Norfolk & Western
Funded debt	$196,362,147	$114,563,601
Preferred stock	....	22,992,300
Common stock	62,792,600	121,406,800
Total	$259,154,747	$258,962,701

There is comparatively little difference in the miles of main track operated by the two roads. Chesapeoke & Ohio operates 2,517 miles of road, and Norfolk & Western, 2,088.

The property investment (road and equipment) of Chesapeake & Ohio was valued at $287,864,838 as of Dec. 31, 1919, compared with a valuation of $316,360,900 for Norfolk & Western as of the same date. This places the Chesapeake & Ohio capitalization per mile of road operated at $114,400, compared with a capitalization of $140,000 per mile for Norfolk & Western. If anything, Chesapeake & Ohio's capitalization is low and the chances are that the Interstate Commerce Commission valuation of the property will be in excess of the book value. Chesapeake & Ohio has the lowest per mile capitalization of any road in its district.

Return on Valuation

Another interesting phase of the situation is the respective returns on the common stock of each road on the basis of a 6% return on the property valuation.

A 6% return on the property valuation would give Chesapeake & Ohio net earnings of $17,300,000 which is at the rate of $13.50 a share on the capital stock, or over three times present dividend requirements. A 6% return on the property valuation of Norfolk & Western, on the other hand, would give net earnings of $18,400,000 which is at the rate of $9.40 a share on the common stock, or only 1.34 times the dividend requirement.

Conclusions

It must be quite evident to the reader that the purpose of the article is not to point out any inherent weakness in the Norfolk & Western system. There is probably no such weakness to point out. Both roads are entitled to a very high rating, having excellent earning and dividend records as far back as 1900. Each carrier has been adequately maintained, efficiently operated, and conservatively capitalized. However, the developments of the last year point unmistakably to greater speculative possibilities in Chesapeake & Ohio than in Norfolk & Western. Chesapeake has shown enormous earning power on its capital stock in the last six months, whereas Norfolk & Western earnings have shown a large falling off. At the rate of present operation Chesapeake & Ohio is earning over four times dividend requirements, while Norfolk & Western is falling short of covering its 7% dividend. Moreover, operating expenses, exclusive of maintenance, have risen more rapidly on Norfolk & Western than on Chesapeake & Ohio. What this is attributable to will only be ascertained when the detailed report for 1920 is published, but the fact remains that Chesapeake & Ohio is handling a greater volume of traffic at a lower operating cost.

The purchase or exchange of these securities (involving the same principal) would make very little difference in the income or yield, and it is the belief of the writer that the operation will prove profitable within the year. A continuance of earnings at one-half the present rate would be sufficient to entitle Chesapeake to increase the dividend to 5 or 6%, increasing the "fair" market value of the stock 20 to 30 points above the present level.—Ches. & O., vol. 27, p. 538, N. & Wes., vol. 27, p. 538.

COMMANDING YOUR BANKER'S SUPPORT

(Continued from page 673)

In proportion as this plan is followed, will the coming year's net loss be much less than it would be under the methods now followed by most plants.

It is not a difficult matter to carry out this plan. The burden account would be charged with actual expenditures, and the work-in-process would be charged with the standard overhead; while the difference between "standard" and "actual" overheads would be charged to "burden profit-and-loss account."

Another Useful Account

It would be desirable also to make use of a "material adjustment account," in respect of pig iron, scrap iron, coal, coke, rubber, lumber and other materials of staple nature. This account would exhibit the profit and loss as between the purchase price of material, and the price which is charged into the cost. For example, if you purchased pig iron at $35 a ton and the market later drops to $30, the cost records would be charged at this latter rate of $30 covering the tonnage actually used, and the "material adjustment account" would be credited with the same figure. A second entry, however, would credit the inventory account, at the actual cost of $35, for the tonnage so used, with a corresponding charge to the "material adjustment account." In this way you would "clear" the actual cost from the inventory, and would concentrate in the "material adjustment account," the loss on the material so used. Thus, you see, the cost could be figured on the basis of the normal condition which existed at the time the material was used.

Why This Would Appeal to the Banker

The basis of inducing your banker's support lies in the fact that he has an opportunity to observe the relations between—

(a) Volume profit and loss.
(b) Purchasing profit and loss.
(c) Operating profit and loss.

Adoption of such a plan will do more, in my judgment, toward stabilizing industry and *keeping it stabilized*, than any other one thing. In proportion as industry is stabilized, will finance be stabilized.

It is my firm belief that until, through stabilization, we are able to work normally in industry during longer periods, labor will never do its share toward turning out quantity production, or make the best possible use of labor-saving equipment. An approach to normal working periods will reduce unemployment and tend to smooth out the "seasonal" high and low fluctuations in demand for labor. At the same time, the wide variations in hours-of-use of equipment will also tend to smooth themselves out to greater or less degree. Even the price fluctuations of materials that are most keenly affected by changing or seasonal demand will be steadied and strengthened in the common interest of all concerned.

To wait for prices to drop is bound to stifle demand. Buying extravagantly when prices are low unduly stimulates demand; because being unscientific, such buying creates what is virtually a false demand. Such a demand generally results in increasing production to an unwarranted extent; and this (like "wash sales" on a stock exchange) puts the basis of prices too high. Hence, because of these too-high prices, buying stops; and production decreases accordingly. As a result, prices are forced to an unnaturally low level.

As an example of successful avoidance of this sequence, consider the result of producing such a staple as pig iron in an orderly and more uniform manner. If we produced it during dull times, we would not have to sell it at an abnormally low price, and we would be able to utilize the surplus in busier times, without the necessity of paying the abnormally high prices.

When you discuss problems like these with your banker, you and he are upon common ground; and together, your experience and his can embrace the whole situation. After adoption of the plan I have described, your own

(Continued on page 687)

Industrials

Bonds and Stocks

Goodyear Tire & Rubber Co.

The Goodyear Reorganization

Unofficial Insolvency Caused by Ill-Timed Expansion — Sudden Disaster Follows Wonderful Growth—Details of Proposed Reorganization and Discussion of Company's Prospects

By **BENJAMIN GRAHAM**

IN the midst of general commercial gloom, optimists have found much encouragement in the relatively few important failures recorded. To a great extent, however, this condition reflects not so much underlying financial strength, as a new technique in handling business troubles. For when difficulties occur, instead of appointing a receiver, the creditors now usually establish a committee to whom the affairs of the company are turned over unreservedly. Many concerns have thus been passing through the throes of insolvency, reorganization, or liquidation, without Dun's or Bradstreet's officially being any the wiser.

A striking example of these new financial methods is furnished by Goodyear Tire and Rubber, the affairs of which are now undergoing "readjustment." Had the present situation arisen a few years ago, a receivership would have been inevitable, and the mortality records would have been swollen by a $66,000,000 failure—a figure that would put the famous Rumely insolvency quite in the shade.

Remarkable Incident

The downfall of Goodyear is a remarkable incident even in the present plenitude of business disasters. For the victims of deflation, though many, have for the most part, represented the weaker type of enterprise—either engaged in especially speculative undertakings, or equipped with insufficient capital, or in general established on an insecure, inflated basis. Goodyear, however, suffered from none of these weaknesses. But a short time ago it was considered one of the strongest and soundest enterprises in the country—the leader among tire producers, with the highest reputation in both the commercial and financial field. And yet this company fell from the height of prosperity to the depth of insolvency in a bewilderingly short space of time.

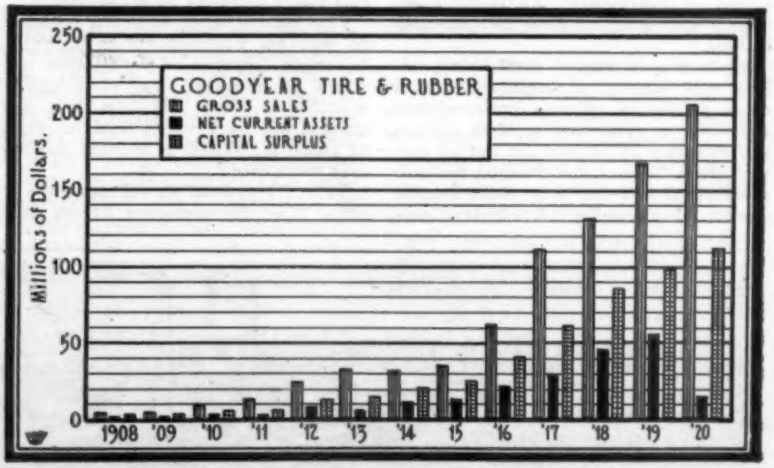
A few figures paint the suddenness of the débâcle. In March, 1920, Goodyear common sold at 415. In the following July a stock dividend of 150% was paid, and the new shares sold at 136. At the same time the company offered for sale at par $30,000,000 of additional preferred and common. Less than three months later, its balance sheet dated Oct. 31, 1920, shows a profit and loss deficit of $15,670,000, with $19,000,000 in further losses expected on purchase contracts. In another three months (Dec. 31, 1920) the deficit had increased to $24,400,000, and the estimated loss on materials contracted for was placed at $18,247,000. In a year and a quarter the current liabilities rose from 22 millions to 66 millions, and the merchandise commitments to another 55 millions.

TABLE I.—GROWTH OF GOODYEAR'S BALANCE SHEET

Oct. 31, 1915-1920 (,000 omitted)

	1915	1916	1917	1918	1919	1920
Assets—						
Fixed	11,442	17,908	30,704	39,155	43,464	*98,041
Current	14,838	31,309	51,858	54,464	76,813	55,036
Liabilities—						
Stock	15,028	35,000	44,672	59,250	57,429	126,028
Surplus and Reserves	9,307	5,050	16,764	26,055	40,831	—13,931
Current	1,945	9,167	21,126	8,314	22,017	40,980
Total	26,280	49,217	82,562	93,619	120,277	153,077

*Includes $3,568,465 due from Pres. Seiberling, later settled by transfer of fixed assets.



As this state of affairs became known to the public, the stock quotations fell precipitately. At the recent low prices of 11 and 25 for the common and preferred, the units of two shares of preferred and one of common, which had been offered last summer for $300, were worth only $61—about one-fifth of cost.

General Significance of the Catastrophe

In considering the Goodyear affair, three questions arise:

1. Just what is the present situation?
2. How was it brought about?
3. What are the prospects under the proposed readjustment?

It may be objected that it is idle to inquire into the cause of Goodyear's trouble. The stockholders can do nothing to retrieve the past; their hopes and fears are with the future. Yet for every investor, Goodyear stockholder or not, the sudden collapse of this enterprise raised a disquieting question. If Goodyear's reverses were the result entirely of ill-luck, and the most efficient management had been powerless to prevent them, then this incident would throw a very disturbing sidelight on the hidden risks underlying even the safest appearing industrial investment. It is important to ask, therefore, whether it was purely an accident that this company succumbed to a business depression which its rivals were able to withstand.

If we study the summary of Goodyear's financial history, given in Table I we quickly perceive the weak point in the company's armor. Two figures alone practically tell the story.

Fixed assets Oct. 31, 1920..	$98,041,000
Fixed assets Oct. 31, 1919..	43,464,000
Increase	$54,577,000

Just as the industrial boom was reaching its climax, Goodyear invested $54,000,000 in new plant facilities and subsidiary enterprises. In one year it increased its fixed assets by 130%; in five years by 750%. That the investment of these enormous sums in permanent assets at such a time constituted a grave error of judgment can hardly be denied. Huge inventory losses may be excused, perhaps, on the ground that the business stagnation came so swiftly and suddenly that escape was impossible—the only possible preparation being the voluntary curtailment of operations while the demand was at its height. But in its headlong expansion policy Goodyear went to the opposite extreme, and built new plants as if it thought the feverish activity of 1919 was merely the prelude to a new and unparalleled era of industrial prosperity.

Some idea of the lavishness and variety of these capital expenditures can be gleaned from the following partial chronology:

Feb., 1920. $2,000,000 guaranteed preferred stock of Goodyear Textile Mills of Cal. offered to public.

March, 1920. Naval Air Station at Akron, Ohio, purchased for manufacture of commercial dirigibles.

March, 1920. Reported that company intends establishing a plant in Brazil.

March, 1920. Company leases 5,200 acres of coal lands in Ohio.

April, 1920. Subsidiary buys Ford plant in Long Island City for $2,000,000.

May, 1920. Company buys a cotton ranch in Cal. for $1,000,000.

June, 1920. 7,800 acres in Arizona bought for raising cotton.

In the previous year the company had acquired 20,000 acres of rubber lands in Sumatra and had organized the Goodyear Tire and Rubber Co. of Cal. with a capital of $20,000,000. No doubt much money was spent on these two ventures in 1920.

While a good part of these heavy outlays were financed through the sale of about $30,000,000 of new preferred and $8,000,000 of common, a large balance still remained to be paid for out of current assets. It was this drain on the cash resources at a critical time which brought disaster. For had the difficulty been confined to the shrinkage of inventory values, Goodyear no doubt could have pulled through, as did Central Leather, despite its colossal losses.

Details of the Company's Present Position

The recently published Readjustment Plan contains a statement of the various obligations as of Dec. 31 last, and an outline of the proposed method of financing same through the issuance of new securities. No complete picture of the company's finances either before or after reorganization is given, however. This can be constructed only by a careful piecing together of the available material.

TABLE II.—Approximate Balance Sheet Dec. 31, 1920.

Assets—	
Fixed	$98,041,000
Current	71,267,000
Liabilities—	
Stock	126,628,000
Deficit	24,400,000
Current	65,964,000
Reserves	1,716,000
Total	$169,308,000

TABLE III.—APPROXIMATE BALANCE SHEET AFTER REORGANZATION
(Allowing for $18,247,000 loss on Merchandise Commitments)

Assets—		**Liabilities—**	
Fixed	$98,041,000	1st Mtge Bonds	$25,000,000
Net Current	65,056,000	Debentures	25,000,000
		Prior Preference	35,000,000
		Preferred	65,000,000
		Reserves	1,716,000
		Book value of 900,000 Shares Common	11,381,000
Total	$163,097,000	Total	$163,097,000

In Table II we give an approximate balance sheet as of Dec. 31, 1920, prior to the creation of the new securities. The deficit has increased to $24,400,000, and we assume, therefore, that the working capital has been correspondingly reduced since Oct. 31 by $7,880,000, and thus stands at only $5,200,000. Since current liabilities are stated at $66,000,000 we put the current assets therefore at $71,200,000.

This balance sheet, however, reflects in no way the commitments of $55,000,000 for future deliveries of merchandise, upon which an estimated loss of $18,287,000 will be sustained. If this loss were charged off, there would result an excess of about $13,000,000 of current liabilities over quick assets.

Table III summarizes the company's position after consummation of the readjustment, which will involve the issuance of the following securities:

A. $35,000,000 Twenty-Year First Mortgage 8% Bonds, presumably to be sold the general public.

B. $25,000,000 Ten-Year 8% Debentures, to be used together with 250,000 shares of new common to pay off a similar amount of bank debt. These debentures are to be offered to present stockholders at par with a bonus of ten shares of common with each $1,000 bond.

C. $35,000,000 8% Prior Preference Stock. To be used to pay merchandise and contingent creditors and to fund one-quarter of the merchandise commitments. For this purpose the Prior Preference stock will be valued at 80, and evidently will be offered to stockholders at that price.

D. $65,000,000 7% Preferred Stock, to be exchanged share for share for present preferred.

E. 900,000 shares of common of no par value, to be exchanged share for share for present common (610,000 shares); to be given as a bonus with the debentures (250,000 shares); and for "other purposes" (40,000 shares).

Furthermore, there may be created an unstated amount of management stock to be entitled to aggregate dividends of not more than $30,000 per annum, in priority to the preferred and common; also to exclusive voting power for the election of majority of directors. This means that control of the company will be vested in the Creditors' Committee as long as any bonds or debentures are outstanding—quite probably for twenty years.

Working Capital and Fixed Charges After Reorganization

The total par value of new securities to replace existing debt is thus $85,000,000. But since the Prior Preference stock is to be issued at 80, the actual amount realized will be $78,000,000. If from this figure the previous working capital deficit of $13,000,000 is deducted (which includes the future losses on merchandise contracts) the reconstructed company will start off with net current assets of about $65,000,000. This will cover the two bond issues

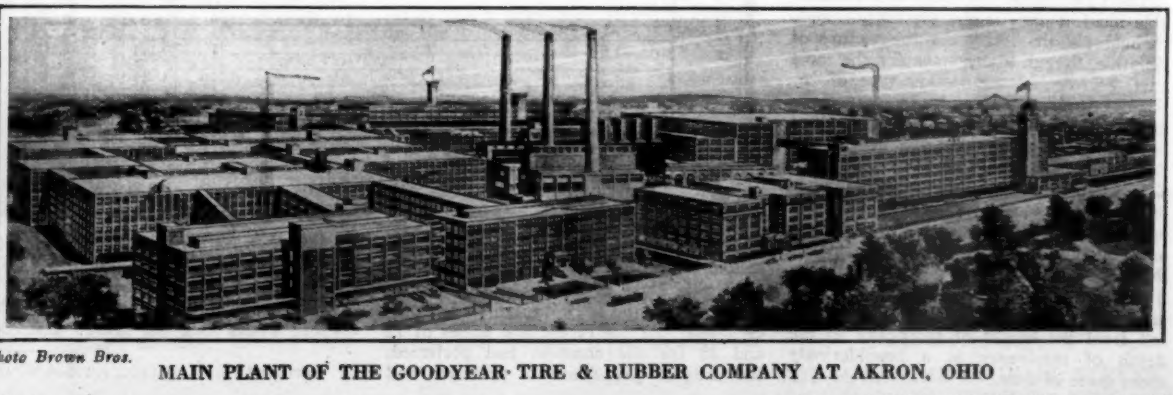


Photo Brown Bros.

MAIN PLANT OF THE GOODYEAR TIRE & RUBBER COMPANY AT AKRON, OHIO

fully and leave about $43 per share, for the Prior Preference stock. Valuing the fixed assets at their book figure of $98,000,000, the total assets behind the preferred works out at $117 per share; but for the new common, at only $12½ per share—or just about its present price.

Interest and dividends on the two bond issues and prior preference stock will aggregate $4,800,000. But to this must be added a sinking fund of $1,250,000 on the First Mortgage bonds, and another for the debentures, the amount of which is not stated but may be estimated at $500,000. These two items would make a total of $8,550,000 of charges ahead of the 7% preferred. Hence total annual payments of $13,100,000 would have to be met, before anything is available for the common. Nor will the sinking fund operations reduce these charges gradually, since whatever amount is thus saved in interest must go to redeem the Prior Preference stock.

What Is the Outlook?

The great obstacle to determining what are the reorganized company's prospects lies in the impossibility of selecting an average or normal year's operations on which to base an estimate of earning power. As the graph shows, in twelve years the company's sales grew from $2,000,000 to $200,000,000, and the assets and capitalization were similarly expanding a hundredfold. Hence the company's exhibit five or even two years ago may afford very little indication of future results.

One thing of course is clear—that for the time being sales cannot be expected to approach last year's record figure of $206,000,000. It is reported that the company will double its operations shortly, to a basis of 60,000 tires per week; but this schedule probably means gross business of less than $60,000,000 per annum. If we estimate the turnover under rather quiet (but not stagnant) conditions at, say, $130,000,000, and the ratio of profit after taxes at, say, 10%, this would give net earnings of $13,000,000—or not quite enough to cover the preferred dividend. The bond interest should then be well secured, and the Prior Preference dividend covered with a fair margin, and doubtless paid. The situation of the preferred stock, however, would be dubious, with the likelihood against any disbursements for some time.

Another angle on the problem can be obtained by a comparison with Goodrich, the company's ancient rival. Since Goodyear preferred is quoted at only 30, it can be set off against Goodrich common, which sells about six points higher. In 1919 Goodyear's sales exceeded those of Goodrich by about 20%. We may assume that if Goodyear's gross is reduced to $130,000,000, the other company's might drop to $105,000,000. On a 10% profit basis, Goodrich's earnings could then be $10,500,000. Deducting note interest of $2,100,000 and preferred dividend of $2,660,000, the balance left for the 600,000 shares of common is $5,740,000 or $9.50 per share. From this point of view Goodrich common appears more attractive than Goodyear preferred. It has the further advantage of paying a $6 dividend—for the time being, at least—and not being in financial difficulties.

The 1920 Goodrich report is not yet available. Hence we do not know how its working capital has fared in the price readjustment. Last June it stood at $70,000,000—a comfortable figure—but if it has since shrunk considerably this factor may offset the apparent superiority over Goodyear.

The Common Fundamentally Speculative

Our estimate of $13,000,000 net for Goodyear leaves nothing for the common. Its dilution through the issuance of the bonus stock makes the establishment of any large earning power in the near future rather improbable. At the present moment the salient point about the common is that the total market value of the new issue is only $11,000,000, as against a par value of $150,000,000 of prior securities.

This relationship is the earmark of an essentially speculative issue—the value of which will fluctuate widely with each relatively small change in the company's earnings. Goodyear common must, therefore, be regarded as a typical speculation; its market price will rise and fall with the general outlook of the tire industry.

The preferred stock is also mainly speculative, since dividend resumption is not yet in sight. It seems reasonable to assume that the re-establishment of normal conditions in the motor industry should enable the company to pay something on this issue. Hence at 30 the preferred stock appears a fairly attractive long-pull speculation. In this connection it must be remembered that Goodyear's troubles are mainly financial. Its products have not lost their prestige, and the valuable goodwill built up by years of national advertising and honest merchandise should be preserved unimpaired.

In valuing the Goodyear issues we have assumed that the reorganization plan is successfully completed. As this is written the company announces that while over 75% of the creditors have consented to the proposal, the co-operation of the remainder must be obtained. If the plan fails of adoption, a receivership will then appear inevitable, with more drastic treatment ultimately accorded the stockholders. This possibility has served to depress the current market price to a lower level than is warranted by the long-range prospects of the issues, especially of the preferred stock.—vol. 26, p. 166.

WHAT AMERICAN BUSINESS NEEDS

(Continued from page 666)

France's insistence upon a large indemnity and her impatience with attempts at mitigation, evasion or postponement. Once the question of indemnity has been settled, Germany's creditors will know where they stand and will be able to plan for the future.

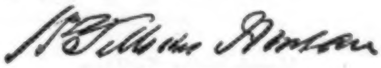
Furthermore the settlement of the indemnity question will aid in clarifying the international situation and promoting the return of international exchange to a normal basis. Until this readjustment has been effected the resumption of a normal foreign trade cannot be expected, and upon that depends the restoration of business activity at home.

In brief, then, I would say that **any plan that helps to restore international normal trade conditions will facilitate the resumption of normal business activity.** There is no cause for alarm in the situation. Although peace has been declared, we are still enduring the war. This aftermath could not have been avoided. The world's wealth was wasted and destroyed by the great struggle for the maintenance of liberty, and we must make up our minds to frugality and unceasing industry until the deficit has been supplied.

Necessity of Public Co-operation

Of course the present situation bears heavily upon business. I trust that the public in general will keep this in mind and that such legislation as may be required from the incoming Congress and such encouragement as may be needed from the new Administration will not arouse opposition. I am sure that neither Congress nor the new officials will grant anything improper, and I trust that no business undertaking will make any improper request; but business must be encouraged rather than discouraged, and many reforms, both in taxation and in laws affecting our foreign trade, have been too long neglected. The time has come when we must turn our attention to them and see that they are settled in a wise and prudent fashion.

The United States is the most fortunate among the nations of the earth today. We are in the full enjoyment of political security, ample resources and abundant capital. I am confident that we shall employ these advantages not only to rebuild our own business machinery, but to aid the other nations of the world, less fortunate than we, to regain their feet.



A BANK WITH 221,788 DEPOSITORS

On the basis of comparative figures for eastern institutions, the Bank of Italy apparently has more depositors than any other bank in the United States.

221,788 depositors are shown by the Bank of Italy, as of December 31, 1920, approximately 25,000 more than the next largest institution reporting. These figures represent a depositor gain of 32,277 in the last year. The average deposit is $630.

The Bank of Italy is moving into its new building on Market street, San Francisco, one of the country's largest buildings devoted exclusively to the purposes of a bank.

Among the new features to be incorporated in the new services of the Bank of Italy will be a women's department, in charge of an experienced and capable executive; a children's department devoted to the interest and development of school savings; a safe deposit vault with a capacity of 26,000 boxes; a large international department, and an auditorium seating 250 people.

Continental Can Company

Factors in the Slump in Continental Can's Earnings

Why Net Earnings in 1920 Were Only About Half Amount Earned in Previous Year—The History and Outlook of the Company

THE affairs of the Continental Can Company, judging by the figures, suffered a very decided slump last year. Net earnings, before depreciation, etc., were two million dollars, as against net earnings of four million dollars in the previous year; and the amount available for the common stock was only a trifle better than half what it was in 1919.

This development, no doubt, caused more than a little apprehension among the stockholders of the company. It was accompanied by a 40-point decline in the common shares from last year's high point, and a corresponding reaction in the preferred.

Since Continental Can common has, in its day, sold as high as 127 and as low as 37½, those who can determine the future possibilities and potentialities of the company itself have the opportunity to make a considerable profit in the shares from their present "half-way" position around 60.

Early History

The Continental Can Co. was formed in 1913, acquiring a New Jersey corporation of the same name, the Export & Domestic Can Co. and the Standard Tin Plate Co.

The company forged ahead very rapidly following its organization. Earnings for 1919 were 425% larger than in the company's first year. It may be said that this great increase was due largely to the war-time demand for canned edibles; but it is interesting to note in this connection that the American Can Company's earnings increased only 88% in the same period. Continental Can, in point of growth, far outstripped its chief competitor.

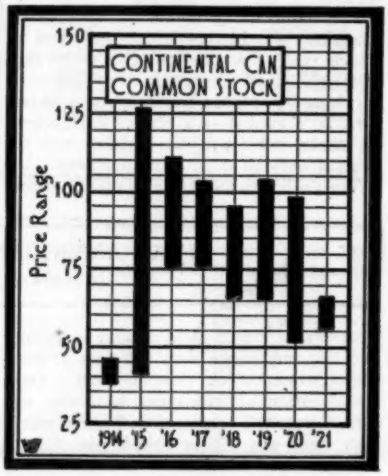
Manufacturing Facilities

Continental Can owns and operates plants at New York City, Syracuse, Baltimore, Canonsburg, Pa., and two plants at Chicago.

During 1913—the first year of its existence—the company completed large additions to its plants at Syracuse and Baltimore to take care of the rapidly increasing demand for the "sanitary" or open-top can.

Besides its large output of fruit and vegetable tins, the company also owns and operates a tin plate mill at Canonsburg, Pa., as well as two extensive machine shops in Syracuse, where all special machinery is made.

During 1917, the company built and



equipped a large machine shop at Syracuse, thus doubling its facilities for the manufacture of cans and closing machines. In the same year the company also built and equipped what is considered the largest and best equipped can factory in this country, at Clearing, Illinois. This factory was put in operation toward the close of 1918.

Despite the great growth in its manufacturing facilities, the company recently found it necessary to expand further in this direction. A new can-making plant was therefore erected in Jersey City. This plant will be substituted for the company's old plant in New York City, which was located in a leased building and not suited to the requirements of the company.

In respect of its tin plate needs, Continental Can has a decided advantage over its chief competitor, American Can. Whereas the latter is forced to buy all its tin plate in the open market, Continental Can's tin plate mills supply a large percentage of its tin plate requirements.

Statistical History

A somewhat elaborate pair of tables accompanying this article give the statistical history of the Continental Can Co. since its organization. The figures contained in the tables are more illuminating than any verbal description could be.

It will be seen that the war helped to boost the earnings of the company from $788,000 in its first year to over $4,500,000 in 1917.

The Slump in 1920

People interested in this company are particularly impressed with the reaction in its returns which occurred last year. A balance of only about $8 a share was shown on the common stock for the year, contrasting with more than $17 a share in 1919.

It is not often that a change in the affairs of a company will be explained as cogently and frankly by its officials as was this change in Continental Can. The remarks of T. G. Cranwell, president, give the whole story in a nutshell:

"After reducing the value of the inventory on hand at the end of the year," says Mr. Cranwell, "which was purchased at considerably higher prices than the prices prevailing at December 31, 1920, the net earnings of the company for the year 1920, after deducting depreciation and taxes, amounted to $1,548,620.

"Up to October 13, 1920, the volume of business was well ahead of the previous year but the great slump in business generally for the last quarter of the year affected all lines of trade, including our own. It is expected that before the end of the year 1921 the inventory will be reduced to normal. What few contracts the company has for material for future

STATISTICAL HISTORY OF CONTINENTAL CAN

	1913*	1914	1915	1916	1917	1918	1919	1920
Net earnings	$788,016	$1,339,434	$1,457,965	$2,466,665	$4,531,370	$3,728,269	$4,139,778	$2,196,341
Depreciation	......	116,819	132,127	323,111	400,393	629,226	664,815	437,721
Taxes	......	......	......	......	850,000	900,000	850,000	210,000
Preferred dividends	397,688	367,535	361,725	353,238	344,575	327,250	318,552	307,037
Balance	$390,328	$855,080	$964,114	$1,790,316	$2,936,402	$1,871,793	$2,306,411	$1,241,583
Common dividend	......	......	200,000	400,000	450,000	809,777	877,358	945,000
Surplus	$390,328	$855,080	$764,114	$1,390,316	$2,486,402	$1,062,016	$1,429,053	$296,583
Previous surplus	......	390,328	995,908	1,679,522	2,904,839	5,226,241	2,623,258	3,748,377
Total surplus	$390,328	$1,245,408	$1,760,022	$3,069,838	$5,391,241	$6,288,258	$4,052,311	$4,044,960
Preferred stock redemption	......	249,500	80,500	165,000	165,000	165,000	165,000	165,000
Stock dividend on common	......	......	......	......	......	3,500,000	......	......
Federal tax to Dec. 31, 1918, over-estimated	......	......	......	......	......	......	136,934	......
Balance	$390,328	$995,908	$1,679,522	$2,904,839	$5,226,241	$2,623,258	$3,748,378	$3,879,960
Balance of surplus to redemption of preferred	......	......	330,000	495,000	660,000	825,000	990,000	1,155,000
Profit and loss surplus	$390,328	$995,908	$2,009,522	$3,399,839	$5,886,241	$3,448,258	$4,738,378	$5,034,960

*13 months.

CONTINENTAL CAN.

Working Capital.

	1913	1914	1915	1916	1917	1918	1919	1920
Current Assets:								
Cash	$288,159	$354,056	$604,476	$1,028,930	$915,392	$2,329,791	$973,793	$1,087,259
Bills receivable	444,903	743,504	1,056,356	1,157,405	2,032,787	1,566,503	2,085,287	2,332,697
Inventories	2,186,281	1,854,852	2,285,156	2,928,303	6,277,939	9,466,737	5,610,603	8,960,366
Prepayments	16,682	22,755	43,309	75,961	69,300	230,422	92,813	262,051
Total	$2,936,025	$2,975,167	$3,989,297	$5,100,699	$9,295,418	$13,593,453	$8,762,496	$12,642,373
Current Liabilities:								
Notes and accts. payable, etc.	$438,209	$276,220	$1,345,775	$1,812,659	$3,223,955	$8,222,024	$2,646,114	$8,404,431
Dividends payable	96,250	91,884	190,475	187,588	209,700	284,313	315,175	312,288
Total	$534,459	$368,104	$1,536,250	$2,000,247	$3,433,655	$8,506,337	$2,961,289	$8,716,719
Working capital	$2,401,566	$2,607,063	$2,453,047	$3,100,452	$5,861,763	$5,087,116	$5,801,207	$3,925,654

delivery are, as a whole, on the basis of prices existing at December 31, 1920.

"In addition to the loss on inventory referred to above, the profits were also reduced, first by the greatly increased cost of labor in 1920, both as to actual wage increases and general inefficiency of labor, as well as by the higher cost of minor raw materials without any corresponding increase in our selling prices; and, second, by the interference with our output because of the railroad and switchmen's strike and consequent inability to secure our requirements of tin plate in the height of our can manufacturing season, when these cans were most needed by our customers. The steel strike also interrupted materially the operation of our tin plate mills more or less through the entire year, and at times it was almost impossible to secure even a moderate supply of steel to run them."

Summary of Operations

There is practically nothing to add to the foregoing, beyond an interpretation of some of the statistical items to assist investors in crystallizing their opinion of the company's future.

The drop in earnings by no means reflects a reduced earning power. As stated by the president, sales for the first three quarters of 1920 were in excess of those for 1919, the reaction occuring in the final quarter. On the whole, Continental Can's sales last year were probably as great as in 1919.

The policy of the company in writing off its losses out of current earnings is one that reflects unusual conservatism. The fact, as stated by the president, that prices will reduce to those existing on December 31, 1920, indicates that the company will be in an excellent position to handle the current year's business.

The policy of retiring part of its outstanding preferred stock was continued during the year. Today there is outstanding $4,345,000 preferred as against $4,510,000 on December 31, 1919. The various steps taken in the retirement of the preferred, year by year, are shown in the accompanying table.

Inventory as of December 31, 1920, amounted to $8,960,366, against $5,610,603 as of December 31, 1919. There was no change in cash on hand or in accounts and bills receivable. Total current assets amount to $12,600,000 against which were current liabilities of $8,716,719, leaving net working capital of $3,900,000 or better than $25 a share on the common stock.

The company's notes and accounts payable increased considerably over 1919, amounting to $8,404,431, as against only $2,646,114 in 1919. No doubt a considerable proportion of this amount was borrowed to help finance inventory.

Net tangible assets as of December 31, 1920, amounted to $78 a share on the common stock.

Conclusion

The great growth of the Continental Can Co. is proof of an aggressive management. The conservative policy followed since its inception is evidence of an efficient management. The company's line of business is one which should gain rather than suffer from general depression because it caters as much to economy as it does to convenience. The 1920 reaction appears to have been due to factors—such as labor troubles—which are not likely to occur again, or with any frequency.

Both the common and preferred shares are good investments, with substantial speculative possibilities attaching to the common.—vol. 27, p. 322.

COMMANDING YOUR BANKER'S SUPPORT

(Continued from page 682)

risk and also that of your banker is lessened. It serves to bring about real stabilization, instead of a fictitious hopefulness that must whistle to keep up its courage.

The Cycle of Depression

In periods of depression or inactivity, the succession of happenings is something like this—

1. Concerns stop (or let down) in producing.

2. Men are thrown out of work, or else work "part time."

3. Idle machinery makes investment unproductive.

Hence, all along the line there is severe economic loss which makes for high production costs.

On the other hand, during periods of stimulation, excessive demand results in over-activity, so that—

1. Plants run overtime, often to detriment of equipment and facilities.

2. Workers are driven instead of led; and "high-pressure output" is subject to undue proportion of spoilage and waste.

3. Lack of co-ordination, increased labor turnover, use of insufficiently trained labor, confusion, and other factors increase costs beyond reason.

Thus, high costs result in times of extreme under-production as well as in times of production in excess of demand; whereas if production were kept nearer on an "even keel," both the downward and upward price swings could be lessened very considerably.

The periods of low production cause an element of costs too often underestimated. Just as we are told that it costs our Government $780,000 a year to maintain the "Leviathan" in idleness in New York harbor, so there is a cost that is an economic waste, due to over-equipment required in the industrial plant that must reach "peaks" of production to make up for periodic "valleys" when demand abates sharply.

Not an Untried Plan

When you plan to produce normally, and store the excess output pending augmented demand, the venture requires financing—and your banker becomes your logical partner. He may "shy" at such a proposition on the score that the plan is untried. If he does so, remind him that many concerns have followed that plan, and that every year sees new ones adopting it profitably. Underwear, shoes, candy, jewelry, phonographs and pianos are only a few of the products which are successfully lengthening their busy factory season in anticipation of subsequent demand.

Imagine what price you would have to pay for those products if the manufacturer waited until the rush season before starting production. Picture what would happen if all the grain elevators and cold storage plants were suddenly destroyed.

Then consider whether there is any economic barrier in the way of similarly handling basic commodities like coal, iron, coke and the like.

What Will Appeal to the Banker

Bear in mind that the prospect of getting your banker's help depends very largely on your being able to demonstrate the soundness and wisdom of your management. If your banker seems in doubt whether to call your loan or to extend it—whether to help you in expectation of "pulling things through" and safeguarding prior investments, or to quit and pocket his losses, say to him—

"Here is what I am doing now. Here is what I can do at full capacity. Here is what I can do at normal. If I continue at the present rate, I may win out and I may go under. But if I can get back to normal quickly, I will lose a great deal less, and when things take a turn upward I can pull through suc-

(Continued on page 723)

Business Outlook of Gum Manufacturers

Public Buys Over $100,000,000 Worth of Gum Annually—1920 a Bad Year for American Chicle—Industry Largely in Hands of Three Corporations

By ALEX MOSS

BACK in 1866, Santa Ana, dictator of Mexico, was driven out of that ever-turbulent republic by Diaz. Had it not been for that apparently remote action of the Mexican revolutionists, it is doubtful if the United States would now be the large producer of chewing gum that it is. So much for the vagaries of fate.

Santa Ana, the political refugee, sought a safe domicile in some other part of the world when things began to get too warm for him among his brethren, and of all places on the globe finally decided on Staten Island. Here the curiosity and enterprise of one of his neighbors led to the genesis of what has come to be termed "the great American habit"—that of gum chewing.

Thomas Adams, who came into more or less intimate contact with Santa Ana while he was a resident on Staten Island, observed that the Mexican had a curious habit of chewing incessantly. He would watch his jaws move, fascinated and intrigued. Adams knew it could not be tobacco. The visible evidences that accompany the tobacco-chewing habit were lacking. So Adams asked, and was informed that the Mexican was chewing a substance called "chicle," the sap of the sapota tree, which grows in Mexico almost exclusively.

Mr. Adams had young sons, and to these he gave the idea of making chewing gum and selling it to children. Adams & Sons found, after a few years, that the product was as much sought after by the grown-ups as by the children, and within a comparatively few years had introduced the habit throughout the eastern states. Thus was started an industry which today represents an investment of many millions of dollars and which takes from the pockets of the devotees of the gum habit the astounding total of approximately $100,000,000 yearly!

Today the largest factors in the chewing-gum industry are the William Wrigley, Jr., Company, the American Chicle Company, and the Beech Nut Packing Company, in importance ranking in the order named. The first two companies manufacture chewing gum and allied products only. The Beech Nut concern, in addition to making chewing gum which, with it, is a minor product, does a large business in diversified food products. Only the chewing-gum companies are dealt with in this article.

THE AMERICAN CHICLE COMPANY

Interest has been lent to the gum manufacturing industry by the fact that the common stock of the American Chicle Company has recently been listed on the New York Stock Exchange and provision made for the listing of its preferred.

This company, which was organized under New Jersey laws in 1899, is a consolidation of half a dozen of the largest and best-known chewing-gum manufacturers in the United States and Canada. These include the old-time firms of Adams & Sons, Beeman's, W. J. White & Son, J. P. Primley, the Kis-Me Gum Company, and S. T. Britten & Co. In 1914, through the acquisition of the Sen Sen Chiclet Company, the properties, trademarks and trade names of an organization of eight American, Canadian and English producers were secured. These included the T. B. Dunn Company, Frank H. Fleer & Co., Curtis & Son Company, and the Grove Company. In 1916 the assets of the Sterling Gum Company, Inc., were purchased. The American Chicle Company also owns Adams & Beeman's, Ltd., of London, England, and the Canadian Chewing Gum Company, with a factory located at Toronto.

Photo Brown Bros.

BOILING THE SAP TO MAKE CHICLE

The base of all chewing gum known as "chicle" is made by boiling the sap of the sapota tree, for which no substitute has yet been found

The American Chicle Company owns the entire capital stock of its two active subsidiary companies. One of these, the Canadian Chewing Gum Company, of Toronto, Can., was organized December, 1910, with a capital of $1,000,000, represented by 10,000 shares of a par value of $100 each. The other, Adams & Beeman's, Ltd., London, England, was incorporated under the name of the Tutti-Frutti Sen Sen Company, May 4, 1910, with a capital stock of £20,000, par value £1 per share. In April, 1920, the capital of the company was increased to £120,000, and the name of the company was changed to the present name about the same time. In addition to these two active corporations, the American Chicle Company also owns several other nominal organizations whose capital stocks are not carried on the balance sheets.

The company produces and sells the following well known brands of chewing gum: Adams Black Jack, Adams California Fruit, Adams Pepsin, Adams Yucatan, Adams Chiclets, and Beeman's Pepsin. It also manufactures Sen Sen and a number of lesser-known brands of gum.

Early Organization Lacked Cohesion

In 1916, fourteen small plants were being operated by the American Chicle Company in various parts of the United States. The organization was scattered and lacked the cohesion necessary to successfully meet the competition of the Wrigley Company which, by aggressive advertising methods and sound merchandising, had assumed a foremost position in the industry. It was the old story of a successful concern rapidly dying of inanition, of slothfulness and indolence engendered by a feeling of security which was more fancied than real.

TABLE I.—DIVIDEND RECORD OF AMERICAN CHICLE.

Common Stock.

1899 (60,000 shares)	6 %
1900 (60,000 shares)	9 %
1901 (60,000 shares)	7½%
1902 (60,000 shares)	11 %
1903 (60,000 shares)	12 %
1904 (60,000 shares)	12 %
1905 (60,000 shares)	12 %
1906 (60,000 shares)	16 %
1907-1913, inc. (60,000 shares)	18 %
1914 (60,000 shares and 80,000 part of year)	20 %
1915 (80,000 shares)	11 %
1916 (80,000 shares)	1¼%
1917	None
1918	None
1919 (80,000 shares)	4 %
1920 (80,000 shares Feb. 1 and new basis thereafter)	$4.00

TABLE II.—AMERICAN CHICLE EARNINGS.

	1919	1920
Gross profit	$6,027,653	$4,694,171
Other income	88,278	320,117
Total income	$6,115,931	$5,014,288
Expenses, taxes, deprec., and interest	4,516,186	4,222,198
Net income	$1,599,745	$792,090
Dividends	498,136	631,172
Surplus	$1,101,609	$160,918
Previous surplus	1,794,134	2,895,744
	$2,895,744	$3,056,662
Inventory reduction	......	2,056,291
Profit & loss surplus	$2,895,744	$1,000,371

TABLE III.—WM. WRIGLEY EARNINGS.

	1917	1918	1919	1920
Net sales	$15,402,088	$16,708,768	$27,147,413	$28,848,811
Net profits before Federal taxes	3,954,068	4,356,290	6,229,297	4,178,784
Net profits after Federal taxes	2,591,494	2,314,988	4,139,897	3,325,767

New blood was finally brought into the American Chicle organization, however, men of sound business judgment and keen discernment, and these men, in 1916, immediately set about rejuvenating the concern. Darwin R. James, who will be remembered as the man who made such a splendid success of the Pyrene Manufacturing Company, is president. He some time ago realized that the old-time methods pursued by the company were taboo, and surrounded himself with men like J. F. Bresnahan, an advertising and sales expert of long experience, who was made vice-president in charge of sales and advertising, and L. G. Godley, who is now vice-president and production manager.

The chief thing sought to be accomplished by the new regime was the centralization and concentration of its manufacturing operations in order to reduce operating costs. This has now been done. Factories of the company in Cleveland, Kansas City and Portland, Ore., have been disposed of to advantage. A refining plant at Long Island City and a factory in Portland, Maine, have been closed down and placed on the market for sale. Other plants in Rochester have likewise been dismantled and placed out of operation in order to further the program of concentration mapped out by the officials.

American Chicle now appears ready, with all sails trimmed, to meet any kind of weather. A new factory, but recently completed in Long Island City, represents the last word in the production of its products. It has been equipped with the machinery from the factories which have been dismantled. Considerable additions to machinery for the more rapid and economical handling of the company's work have been made in the Chicago and San Francisco plants, which, with the new Long Island City plant, will enable the company the better to meet competition, admittedly of the Wrigley Company, which has plants at Chicago, Brooklyn, Toronto and Sydney, Australia.

Growth of Capitalization

The American Chicle Company was organized with an original capital consisting of 60,000 shares of common stock of a par value of $100 each and 30,000 shares of preferred stock of a par value of $100 each. In 1914 the common stock of the company was increased to 80,000 shares of a par value of $100 each. In May, 1920, due to an increased volume of business, higher prices for raw material, freight congestion and the drop in foreign exchange, the company found new financing necessary. At a stockholders' meeting held May 6, 1920, the authorized number of shares of its common stock was increased from 80,000 to 162,500, and at the same time the par value was changed from $100 to shares without par value. Arrangements were made with a banking syndicate to underwrite the offering of new shares to stockholders. Approximately 20,000 shares were taken by stockholders, while 51,408 shares were taken by the syndicate. The balance of 11,092 shares remain in the treasury of the company. As has been previously stated, the common stock, 151,408 shares, has been listed on the New York Stock Exchange and provision made for the listing of $3,000,000 of preferred. Both classes of stock are full-paid and non-assessable. The common is now being quoted at 21-23 per share.

American Chicle had a poor year in 1920. Sales were less than for 1919. The year started out well and gave promise of being a splendid one, but with the slump experienced in the company's business beginning with September, 1920, came a considerable falling off in the volume of sales. Business was so bad that it looked for a while as if the profits for the year would be wiped out. Unfavorable rate of exchange exerted its inevitable effect on the company's export trade, which suffered a serious decline.

No Mortgage on Chicle Assets

None of the American Chicle Company's assets are mortgaged in any way. The outstanding bonds of the Sen Sen Chiclet Company which the company assumed at the time of the acquisition of that concern, constitute a lien upon the trademarks of the former Sen Sen Chiclet Company. On June 30, 1920, there were $2,047,500 of these bonds outstanding. The original issue was for $2,700,000 and was made in June, 1909. The bonds mature June, 1929, bear 6 per cent interest payable June 1 and December 1, and are subject to redemption annually to the extent of $50,000 cash value after public bidding at a price not to exceed 107½. Under date of October 1, 1919, the company sold $2,500,000 of eight year 6% Debenture Notes. Of these notes $300,000 mature on October 1 of each year and $400,000 mature in the last year—October 1, 1927. The first maturity of $300,000 was redeemed October 1, 1920. The subsidiary companies have no indebtedness outside of their current liabilities.

As can be seen from the dividend record which appears in tabular form in this article, the stock was in the past a consistently good performer. Dividends were passed in 1917 and 1918, however, and again in the current quarter. On the preferred stock a dividend of six per cent has been paid regularly since the organization of the company. On its capitalization of $1,000,000 the Canadian subsidiary of the American Chicle Company paid to the parent company 7½% in 1911, 5¾% in 1912, 4¼% in 1913 and 6½% in 1914 and 1915. Since 1915 the profits of the Canadian company have been left as working capital to meet the requirements of its business, which is growing. The English subsidiary paid dividends to the parent company as follows:

1910	$9,554.09
1911	12,763.70
1912	23,974.47
1913	19,167.24
1914	38,210.88
1915	42,860.00
1916	38,065.00

WILLIAM WRIGLEY COMPANY

With the financing of the American Chicle Company it is interesting to compare the financing of the Wm. Wrigley Company. The Wrigley Company, which was incorporated under the laws of West Virginia, was founded in 1891 with a capital of $5,000. It remained a closed corporation until September, 1919, when 20,000 shares of stock were sold by a Chicago banking house at $60 per share (par $25). Up to that time the business of the company was the outgrowth of the original investment.

The American Chicle Company Started Business in This Modest Building in 1866, at Jersey City, N. J.

To provide extra capital for the normal extension of its business, the Wrigley stockholders of record August 10, 1920, were given the right to subscribe to 45,000 additional shares of the common stock, at the par of $25, in the ratio of one new share for each ten shares held. The common stock of the Wrigley company, which is listed on the Chicago Exchange, at this time was quoted at a range of 74¼ to 71⅜. The quotation today is 69-70. The company has authorized 15,000 shares of 7% cumulative preferred stock (par $100) which is all outstanding and 600,000 shares of common (par $25), of which $12,191,900 is outstanding. The common has been paying at the rate of 50 cents per month per share, or $6 annually.

It is interesting to contrast the recent fortunes of the Wrigley concern with those of the American Chicle Co. Whereas the latter's business was comparatively small last year, Wrigley did the greatest business in its history in 1920, as can be seen from the statement of results for the past four years, shown in an accompanying table. Not only was Wrigley in position to handle its vastly augmented sales without financial difficulty in a time when it was paying record prices for its raw materials, but it maintained the price of its commodity to its jobbing customers, absorbing the increased cost of manufacture itself. At the same time it has carried to practical completion the erection of a large office building in Chicago, the ground and structure to date having been paid for out of earnings.

Both Issues Speculative

Regardless of the dividend records of the several classes of stock of both the American Chicle and Wrigley companies, it must be kept in mind that these stocks represent more the nature of a speculation than an investment. The prosperity of the companies is dependent on many factors over which the managements of the respective companies can exercise no degree of control. The success of the business and the stability of the industry depend mainly upon advertising, the advertising appropriation of the American Chicle Company some years exceeding $2,000,000, while the Wrigley company can attribute its phenomenal growth only to the publicity methods it has pursued. Both companies must continue to appropriate large sums for advertising if they would continue doing a "big" business.

The war gave a great impetus to the chewing gum industry. Our doughboys took the habit of chewing gum with them when they went abroad, and both the large manufacturers noticed an increase in foreign business as a direct result of this gratuitous personal advertising. Both companies are making efforts to corral the demand so built up.

With the demand for the products of the chewing gum manufacturers steadily growing, there is plenty of room in the industry for expansion. The American Chicle Company is fortunate in that it controls through concessions from the Guatemalan and Mexican governments and British Honduras over 5,000,000 acres of producing chicle lands. The Wrigley company contracts with the native Mexican producers for its chicle supply. The Wrigley Company on the other hand has an interest in a beet sugar refinery in Utah, while the American Chicle Company must go into the market for its sugar supply.

The Manufacture of Gum

It may not be amiss to sketch briefly the method of procuring chicle, which is the essential base of high grade chewing gum. Chicle is a latex extracted from the sapota tree. The operations run roughly from June to June, with the flow of the sap heaviest during the rainy season. Colonies of chicleros are established on the chicle lands which are to be worked during the season. Burro trails and paths are hewn through the wilderness and collecting stations are established along the banks of the nearest stream. The chicle is floated down to the coast and transported from there to the nearest seaport. The chicle is secured from the tree by means of a zigzag incision in the bark at the bottom of which a bag is placed to collect the crude gum, which exudes in the form of a thick, white sap. This sap is collected and boiled to a solid and is then transported in bags weighing from 100 to 200 pounds each. When it arrives at the factory it is subjected to a heating process which forces it at high pressure through filter presses which remove all impurities. After the cleansing and drying process has been completed, the material is ready to be used in the manufacture of the gum.

So far as the future is concerned, there is little fear for the stability of the two companies herein discussed. Business is getting progressively better with the American Chicle Company, after the poor showing of 1920, the volume of sales for February, 1921, showing an increase over that of January, which in turn was an improvement over that of December, 1920. The Wrigley company is pursuing the aggressive sales policy it has followed for some years. A fair proportion of the surplus of the company goes toward payment of dividends.

For those who can afford to speculate, American Chicle common, which is dealt in around 22, presents interesting possibilities. The present management can be counted on to continue the good record it has begun. Since March, 1916, when it assumed the guiding reins of the organization, it has increased its gross business over 300 per cent. It is believed that with the manufacturing facilities afforded by the concentration and centralization of operations that have been effected, and the constantly extending market for the chewing gum products it handles, the business will witness a steady growth. The reduction in inventories during the next few months should enable the American Chicle Company to liquidate in whole or in a large part its current indebtedness. With an aggressive sales and advertising effort and anything like normal conditions, earnings for the year 1921 should prove satisfactory.—Am. Chicle vol. 25, p. 626—Wrigley Co., vol. 26, p. 172.

NORWEGIAN BONDS AS INVESTMENTS

(Continued from page 670)

housing facilities and harbor improvements. These bonds were offered to the public at 99 and accrued interest and were coupon bonds in denominations of $500 and $1,000 each. Principal, premium and interest are payable in New York City in U. S. gold coin, without deduction for any Norwegian government or other Norwegian taxes, present or future. This provision in regard to taxation also applies to the other dollar loans of both Norway and the City of Bergen. At the present time these bonds are selling around 96 and yield 8.35%. The sinking fund provision calls for an annual payment of $220,000 up to 1930 and of $215,000 until the maturity of the bonds. This sinking fund is to be applied prior to August 1, 1925, towards the purchase of the bonds in the open market, if obtainable, at not more than 110% and interest and on October 1, 1925, to be applied to the redemption of the bonds by lot at 110%. Commencing April 1, 1926, and semi-annually thereafter, sinking fund payments are to be applied to redeem bonds by lot at 110% until October 1, 1930, and at 107½% thereafter.

The 3% Conversion Loan

American investors during the past year have become acquainted with other external issues of Norway and there has been considerable purchase of some of these issues in this country. One particularly attractive issue is known as the 3% Conversion loan of 1888, which was issued in London at 88½% and is redeemable in 75 years by a cumulative sinking fund which commenced February 1, 1890. This sinking fund operates by semi-annual purchases under par or by drawings at par. These bonds are also exempt from any Norwegian taxation and are payable in London in sterling and in Berlin, Hamburg, Frankfort, Paris and Christiania at fixed rate of exchange. A considerable quantity of these bonds was purchased by New York investment houses in London and brought over here and sold to investors in this country.

The attractive features of such an investment include the low price of the bonds on the London Stock Exchange and the possible appreciation in sterling exchange, thus permitting a double profit as international conditions become normal and sterling exchange returns to par. The original amount of this issue was £3,560,000, but over £600,000 have been retired. When the bonds first began to come to this country about five months ago, they were selling around $300 per £200 bond but they quickly advanced and went as high as $390 per £200 bond. Purchases in London practically ceased when the bonds reached this high level. It brought the yield down to too low a point for sale in this country.

Another issue that has been more or less active in the United States is the 3% Conversion loan of 1886. These bonds were originally issued as 3½% bonds in July, 1886. Under the right reserved by the government to pay off the whole loan

(Continued on page 718)

The Lackawanna Steel Company's Plant at Buffalo, N. Y.

Lackawanna Steel Company

A Strongly Intrenched Industrial

Conservative Policy of Lackawanna Management Has Fitted Company to Withstand Industrial Depression—Increased Rail Orders in Prospect

By **E. D. KING**

LIKE most of the steel companies last year, Lackawanna came through with flying colors. Dspite very serious handicaps, such as the unauthorized railroad strike and other impediments, the company made a very respectable showing on the earnings side.

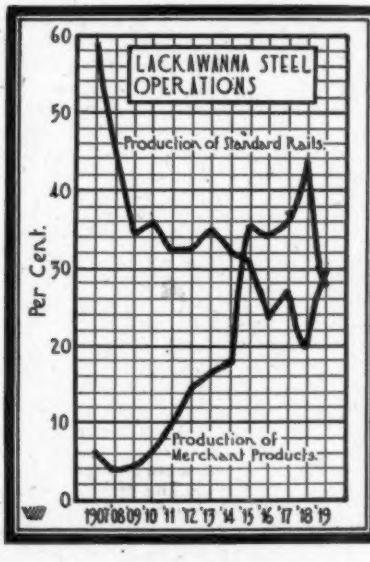
Earnings during 1920 amounted to $12.23 a share. This was the best record in the history of the company with the exception of the 3-year period, 1916-1918, when wartime activity was at its height.

A Conservative Policy

As a matter of fact, the above earnings of $12.23 a share do not truly represent the company's earning power last year. Earnings would have amounted to over $25 a share had it not been for big write-offs for depreciation and inventory account. Inventory adjustment, an unusual item for this company, alone amounted to $8 a share and nearly $7 a share was written off for depreciation. This amount was somewhat in excess of the amount written off for this purpose the previous year. These two items together amounted to $15 a share, so that, added to the net earnings of $12.23 a share, the company actually earned before depreciation, etc., an amount equivalent to about $27 a share. This gives a good idea as to the company's earning power under favorable conditions. The heavy write-offs also speak volumes for the conservative character of the management.

Lackawanna's excellent showing was made notwithstanding that the first quarter of the year resulted in a sizable deficit. It will be remembered that at the beginning of 1920 the outlook for the steel industry was in considerable doubt on account of the terrible traffic conditions. The poor showing for the first quarter, therefore, was not unexpected. Conditions improved, however, and the two succeeding quarters, with earnings of $5.36 and $9.35, strikingly reflected the improvement. In the fourth quarter, while the period was satisfactory in itself, earnings amounted to $6.87, or a considerable falling off from the preceding quarter.

The fourth quarter statement is of particular interest, as it shows the trend in earnings. During the latter part of last year, it became evident that the steel industry was about to face a period of declining earnings. The unfilled orders of practically every steel company showed a serious decline. Lackawanna was no exception. By the end of the year the company's unfilled tonnage had fallen off something like 60% from the high of the year, which was in June. A comparison between unfilled tonnage at the end of the fourth quarter and unfilled tonnage at the end of the previous three quarters will give a good idea as to the waning activities of this company with regard to operations. The figures follow: 1st quarter, 492,519 tons; 2nd quarter, 484,267 tons; 3d quarter, 277.482 tons, and fourth quarter, 152,338 tons.



LACKAWANNA STEEL WORKING CAPITAL

	Current Assets	Current Liabilities	Net Work. Capital
1917	$36,681,368	$16,601,006	$20,080,362
1918	44,609,860	20,012,912	24,596,948
1919	27,891,720	6,614,005	21,277,715
1920	34,277,089	11,581,661	22,695,428

These figures refer to the last day of each quarter, so that the 152,338 tons unfilled tonnage as of the fourth quarter was the amount as at the beginning of the current year. It is doubtful that this record will show much improvement for several months. The present condition of the steel industry is against such an improvement, and it is possible that Lackawanna's unfilled orders at the end of the first quarter will show some falling off from those of the previous quarter.

An Important Rail-Maker

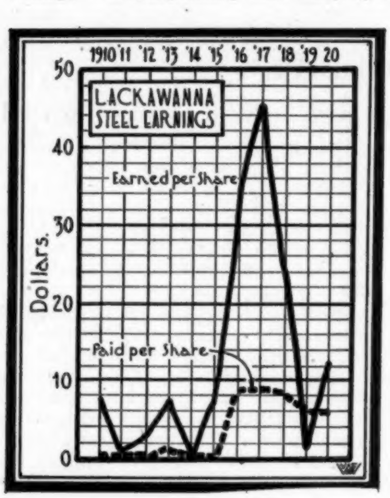
There is one great advantage which Lackawanna Steel possesses which is not true of the rank and file of other independent steel concerns. This is the fact that it is one of the important heavy rail makers in this country. As one of the big producers of heavy steel rails, Lackawanna stands to benefit greatly from a resumption of railroad buying. It is true that the railroad companies, owing to present uncertain conditions, are endeavoring to restrict their purchases to a minimum; but when it comes to rails it is very much of a question whether the carriers will care to risk impairment of such necessary maintenance through not buying what they need. Although the steel rail buying movement may be delayed for some time there is no question, almost regardless of the industrial situation, that within a few months there will be enough orders placed to keep the leading steel rail mills fully occupied for a considerable period. It is for this reason that Lackawanna's outlook appears more satisfactory than that of some of the other independent steel companies.

In the years before the war, the mills of Lackawanna were particularly adapted to the manufacture of heavy steel rails. Thus in 1907, approximately 60% of the mills' capacity went toward rail manufacture. This dwindled in succeeding years until, accelerated by war conditions, the decline hit a point where about only 20% of the mills' capacity was used for rail production. In 1919, the ratio of heavy

rail making to other operations commenced to show an increase, advancing to 29.1% from 19.4% as during the previous year. I have no figures to show what proportion of the company's manufacturing activities are now devoted to rail-making, but it is probable that the ratio is increasing or will increase during the current year. It is known that the plants are so situated with regard to potential operations that over 50% of capacity can be turned back to rail production at short notice.

Financial Position Satisfactory

Operations in 1920 were turned to advantage in strengthening the company's



financial position. As of the end of last December, cash holdings showed an increase from $2,400,000 in 1919 to $3,180,000. Marketable securities were about the same, amounting to about $360,000.

The biggest change in the balance sheet took place with regard to accounts receivable. This item jumped from about $4,000,000 in 1919 to over $12,000,000 as at the end of 1920. The increase, of course, represents the added business which came to the company as a result of the year's extraordinary steel buying. Accounts payable naturally increased actually from about $4,000,000 to about $9,000,000. It will be noticed that accounts payable increased only $5,000,000 whereas accounts receivable increased about $8,000,000 so that the advantage rested with the company, in the sense that its creditor account increased to a greater degree than its debtor account. In other words, there is much more owing the company than it itself currently owes.

Inventories showed a decline of slightly over $2,000,000. This item amounted to $17,700,000 as at the end of 1920, as contrasted with $20,000,000 as at the end of 1919.

Current assets were about $34,280,000, as compared with $27,890,000 at the end of 1919. Current liabilities amounted to $11,580,000, as against $6,614,000 at the end of the previous year. Working capital stood at $22,695,000 at the end of 1920, against $21,277,000 for the year before.

Approximately 50% of current working capital consist of inventories. This is a little high, but the company's liquid position enables it to stand this drag with more or less chance of complete success. However, it cannot be denied that this is an element of weakness in the company's position. Should the year result in a consistently lower price level, it is possible that there will have to be some writing-off at the end of the year. However, this is rather a remote possibility and one which it is yet too early to take into consideration.

As the company now stands, its finances are in pretty fair shape. Its liquid resources are fairly large and should enable the concern to get over the present period of depression without too great hardship.

Position of the Dividend

Lackawanna pays dividends of $1.50 quarterly on its 351,085 shares of capital stock. It does not appear likely that this rate will be endangered this year, unless affairs become much worse. The cash position of the company is certainly sufficient to take care of dividend requirements for the balance of the year, but at the worst it will probably not be necessary for the company to dip heavily into surplus, as earnings ought to be sufficient to take care of most of the dividends. Of course, if the depression drags on for a greater length of time than expected, the position of the dividend rate will be open to question, but as stated above, it is too early to take a position on this point. And, of course, there is the possibility that steel buying will pick up again in the near future which would render dividends more secure. On the whole, one can justifiably take a fairly hopeful view toward maintenance of the present rate of dividends for at least a half a year.

Lackawanna Steel Bonds

The total funded debt, including that of subsidiary companies, amounts to $21,651,000. Of this amount, $17,753,000 consists of the 1st mortgage 5s, due April 1, 1923, and the 1st consolidated mortgage (convertible) 5s, due March 1, 1950. There are $10,862,000 outstanding of the 1st mortgage 5s and $6,891,000 of the convertible 5s.

The 1st mortgage 5s are quoted at about 94, whereas the convertible 5s are quoted at 75. This difference is due to the fact that the 1st mortgage 5s become due in a comparatively short period—April 1, 1923—whereas the convertible issue has nearly 30 years to run yet.

The 1st mortgage 5s yield about 6.50% to maturity and the convertible 5s yield about 7.50%. The long-term bond is the more attractive of the two yielding a higher rate of return over a much greater period of years. For practical purposes, the safety of both issues is on a par, although the 1st mortgage bonds are a 1st lien on all the property of the company, whereas the convertible 5s are a 2nd lien on the company's plants. This issue of bonds, however, is secured by a 1st mortgage on the company's valuable limestore properties, near Buffalo, N. Y., so that its security is ample.

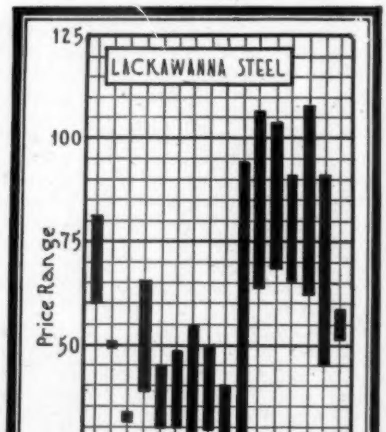
These bonds are convertible into Lackawanna common stock at par. The conversion privilege holds good only up to February 28, 1922. It is to be doubted whether the conversion privilege will have value up to the time when this privilege expires. The stock is now quoted at about 51, and it hardly appears likely that a price of over 100 will be seen for it within the year in which the conversion privilege lapses. However, disregarding the conversion privilege, the bonds are attractive as an investment. The yield at present prices is attractive, considering the safety of the bonds. Probably when money conditions become better and the bond market improves, the bonds will be found selling considerably higher. Over a period of years, they should become a profitable investment, if obtained at about current levels.

As to the Stock

There is no preferred stock, the common stock being the sole capital obligation next to the bonds. This issue consists of $35,108,000 in $100 par value stock. The stock has had a rather checkered career in the stock market, being the subject of some remarkable fluctuations in the bull market of 1919. At that time it sold as high as 107, compared with its present market price of about 51.

Lackawanna Steel common stock has a net asset value of $196 a share, as indicated by the last balance sheet. At its present price the stock is selling at about 26% of its net asset value.

Lackawanna is one of the representative steel stocks. It is backed by a company which is one of the leaders in its field. It has a demonstrated earning power, and even in years before the war, upon several occasions was able to more than earn the present dividend rate. While market conditions may force this issue down to a lower point, it may be considered attractive, at present prices, on its intrinsic



merits. Barring an unexpected prolongation of the present period of distress in the industry the stock should turn out to be a profitable specvestment within a reasonable period.—vol. 25, p. 456.

CAUSE FOR DOUBT

"The train pulled out before you had finished your speech."

"Yes," replied Senator Sorghum. "As I heard the shouts of the crowd fading in the distance I couldn't be sure whether they were applauding me or the engineer."
—*The Santa Fe Magazine.*

Answers to Inquiries

NATIONAL BISCUIT

Old Line Issue

This company was founded in 1898 and is the largest biscuit manufacturer in the United States. It operates 36 manufacturing plants and 200 selling branches and in the past, its preferred stock at least, has been regarded as one of the most conservative among the listed issues of its class. Preferred dividends have been maintained without a break for the past ten years, and since 1907, the common stock has been paying irregular dividends, but during the past few years a regular dividend of 7% which in time has not been earned by a very large margin. The company earned approximately $10 in 1917, $11½ in 1918 and $12 in 1919. The company was very prosperous during the war, and according to recent report, is in good financial shape. Working capital is around $20,000,000 and it is estimated that in the year 1920, the company ought to earn between $10 and $12 per annum. The stock is an investment, but it sells rather high compared with other investment issues in its class.

CHICAGO, MILWAUKEE & ST. PAUL REFUNDING 4½s, 2014

Earnings Still Poor

Chicago Milwaukee & St. Paul has made a very poor showing, not only recently but also during the past few years. According to its latest reports, St. Paul is not earning its interest charges and in fact only covered these to the extent of 80% in the months of September, October and November, 1920. Earning only four-fifths of its interest and less than nothing on its preferred and common stocks it can be seen that very few of its bonds are strictly in the gilt edge investment class at the present time.

These bonds are dated November, 1913, and are due January 1, 2014. They are a direct lien on 718 miles of branches and extensions in Iowa, South Dakota, Wisconsin and Minnesota. Also a direct second lien on 6,767 miles and other liens. Although outstanding to the extent of $43,000,000, the company is authorized to issue more of these bonds to the extent of three times the capital stock less any prior liens. The present series are part of an issue of $154,489,500 issued for some old bonds.

At present, these bonds can only be given a medium grade rating and are not considered gilt edge by any means. They have fair possibilities, however, as a spec-vestment.

RAILWAY STEEL SPRING

Earnings Good but Caution Needed

During the year 1920 the Railway Steel Spring Co. enjoyed a good degree of prosperity. In the six years ending December 31, 1920, earnings totaled $101 a share on the common stock, of which $28 a share was paid out in dividends. The financial condition as a result of this dividend policy is good and properties are in good physical shape. Earnings last year were at the rate of $18.44 a share after charges and taxes on the common stock and most of these profits came from repair work. The company has no funded debt as yet, nor bank loans. Its capital stock consists of $13,500,000 7% cum. preferred and $13,500,000 common stock.

In the event of a prolonged business depression the company will be in a better financial position than many others, because it could afford to dip into its treasury, at least to a moderate extent, to maintain the present 8% on the common stock.

Recent prices between $85 and $100 compare with pre-war levels from $20 to $54 (latter highest price in 1915). The stock still is somewhat speculative.

SEABOARD AIRLINE CONS. 6s, 1945

Not an Investment

These bonds, outstanding to the extent of nearly $28,000,000, are due September 1, 1945. They are callable at 107½ on 60 days' notice. They are a first lien on 416 miles of road, and secured by a deposit of about $36,000,000 of the company's refunding 4s of 1959. The authorized issue totals $300,000,000 so that there is really no limit to the amount of bonds the company can put out under this issue.

The company is not at present earning anything for its common or preferred stock, nor it is earning interest on its Adjustment bonds. In fact, the figures show that in recent months this company barely covered its interest charges. The company accepted the government guarantee for the six months following the ending of Federal control, and but for this report would have had operating deficit of over $5,000,000. A final operating deficit of nearly $3,500,000 for the fiscal year of 1920 was shown.

This company has not made a good showing in recent years, the expenses constantly mounting so that in 1916 and 1917 which were much better years it was able to pay interest on its Adjustment bonds that follow the Consolidated 6s and get by with a very small profit.

These bonds are distinctly speculative, and not in our judgment, an investment issue.

AMERICAN ZINC

Outlook Not Very Encouraging

This company mines zinc and lead ore and also smelts zinc ore. It operates in the Joplin District of Missouri and has smelting plants in Illinois and Kansas, also plants in Tennessee. Like most concerns engaged in the metal business, the company has done very badly during the past two years, especially in the last half of 1920. The company was paying dividends of $6 annually on its preferred stock having a par value of $25; but this dividend was passed in January of this year.

The company has outstanding $5,000,000 in common stock of a par value of $25, and $2,500,000 in preferred stock (par $25). It also has bonds to the extent of approximately $1,500,000. The net earnings even at the end of 1919 only totaled approximately $432,000 while preferred dividends totaled $482,000. Obviously the company even in that year was not doing very well. Up to September 30, 1920, the net earnings for the fiscal year would average around $400,000 before depreciation and depletion.

The stock is speculative, but we would not sacrifice the preferred stock at these low levels, when things look their very worst.

SWIFT & CO. 6% NOTES

Earnings Cover Interest by Wide Margin

The indenture securing these notes provides that no new mortgages (except purchase money mortgages for the acquisition of additional properties) shall be placed on the properties and assets of Swift & Co. It is to be observed that the company was compelled to draw heavily on its surplus in 1920 to meet the 8% dividend on its common stock: in other words earnings fell short by $6,000,000 of the actual $12,000,000 required to pay common dividends. However, interest requirements on these notes is $1,500,000 annually, whereas the company has been earning from about $14,000,000 to $20,000,000 annually.

This security is a note, or preferred obligation of the company and not a mortgage: and some of these notes are of very short term, and an investment in them is equal to a purchase of "commercial paper." As such, they enjoy a very good rating.

CHICAGO, NORTH SHORE & MILWAUKEE

7% Notes, 1930 (Series A)

These are outstanding to the extent of $1,500,000 and are a direct obligation of the company, but not a mortgage. They are to be secured by a deposit of its 1st Mortgage 5% Bonds at the rate of $142 par value for each $100 of these notes outstanding. In the past the company has shown an earning power so far as its 5% bonds are concerned, to the extent of 2¼ times the interest charges on the 5% bonds due 1936. The latter are outstanding to the extent of $4,000,000. The additional interest requirement on these 7% notes would amount to $105,000 annually. This would raise the fixed charges of the company to around $400,000 compared with an average total income of $700,000.

While the 1st Mortgage Gold 5s have a very good rating these notes are, of course, not so well rated, but the issue due 1921 will most probably be paid at maturity.

The company owns franchises and an electric system along the shore of Lake Michigan in Illinois and Wisconsin. At Evanston, Ill., the company connects with the Northwestern Elevated Railroad, which extends to the heart of the business dis-

(*Continued on page* 721)

COURTESY NATION CITY CO.

Building Your Future Income

"Social Unrest"

"SOCIAL unrest" they call it. It is the nervous condition world society has gotten into in recent years. It springs from many causes.

One cause has been the education of the "masses."

In the old days—a long while ago now—this chunk of society everybody calls the "masses" didn't go in much for reading and writing. That was when the "classes" themselves had a good deal of trouble with their spelling.

With no source of ideas beyond that of their every-day conversation, the masses had only a restricted knowledge of what the rest of the world was doing. Envy and jealousy had little information to feed on. It was a case where "what they didn't know didn't hurt them."

Nowadays, nearly everybody reads. And, since the consciousness of the masses has not been long awake, the stuff that appeals to them is the kind that would appeal to children. Sensational, inaccurate and prejudiced—it is bound to warp any immature judgment.

Another cause has been the daily newspapers—at once the blessing and curse of modern civilization. Depending for their circulation on their ability to appeal to peoples' emotions, these organs have made a science of vividness. They have ground out enough hysterical rot to make a whole planet restive.

Perhaps most powerful of all in arousing this "social unrest" was the war. It took men out of gutters and gave them a taste of easy living. It took pale, anaemic toilers out of shops and factories and gave them a taste of fresh air, good food and muscular exertion. Fought under the slogan "Down with Autocracy" it concentrated every man's mind on the business of remaking the world.

In recent months, the unrest has simmered down. Price cuts, failures, the inevitable increase of unemployment—all such influences have tended to bring the feet of the "masses" back down on the ground. Be it said, they have also taught the wage-*paying* class a lesson in fairness it will not soon forget.

* * *

THE question confronting the world today is how to so deal with the present situation as to definitely remove any likelihood of a recurrence of this unrest with all the misery it entails.

There is a way—and a very good way. Every citizen of this country is rightfully and inevitably a partner in the country as a business organization. If the country is not run on a paying basis, the citizens will have to make up the deficit by paying larger taxes. If the country is prosperous there will be more pay and smaller taxes.

If this fact could be brought home to every man in the country—whether he is a plumber, a horse-doctor or a bank president—the people would look with less favor on costly dissension and disagreement. A sense of responsibility for and interest in the country's welfare would develop naturally and logically.

You cannot hope, however, to arouse the fundamental, constructive interest of men in their government by merely telling them that they are partners. You can't expect men who don't yet know what "economics" means to comprehend the working of economic laws.

What you have must do is to put in their possession some tangible evidence of this partnership—something that they will see increase in value according as the country is generally harmonious, inter-cooperative, hard-at-work; something they will see decline in value according as strikes, dissension, wage-disputes, etc., interrupt commerce and hamper business.

A house and lot is a good combination. But it is beyond the average man's purse. In fact, actual property of any description is generally too much to attempt.

The ideal solution is a *token of property* in the form of an investment security.

Show us a man with $500 invested in a Government, corporation or mortgage bond and we will show you a man who will think twice before insisting on rail wages that will wreck the country's business.

Show us a man who owns stock in his home-town street railway and we will show you one who will take "anti-grab" editorials, à la Brisbane, with the barrel of salt they require.

Show us a man who is a "silent partner" in any industrial enterprise and we will show you a booster.

This is the one, sure, unequivocal, practical solution of this thing they call "industrial unrest." It is the one means of convincing the masses of their partnership and their inter-dependence.

As this plan is fostered by the Government's Savings Stamp idea, the U. S. Steel Corporation's "Employees' Stock Subscription" idea, or any other special means of making "capitalists" of us all, it deserves the sincere approval and the two-fisted backing of every man in the country.

It is one of the inspiring thoughts back of the slogan of THE MAGAZINE OF WALL STREET: "For a Nation of Intelligent Investors."

The Value of Determination in Investing

How One Man Improved His Position Through Determined Effort

By **"F. I. NANCE"**

THIS story is a short one of the plans and undertakings of a young man for achieving the financial independence that is now being so much talked of. This means not only financial independence for himself—but for his wife and three small children as well.

Is a gain of $11,000 worth a year's subscription to the MAGAZINE OF WALL STREET?

My wife's father died shortly before we were married. He had left his estate in trust to be paid over to my wife in September, 1921 (in reality when she should become 35 years of age, but that is a secret). This was all very well, and the house ran without financial misunderstanding, a bit of the income from the estate and some small part of my salary always being set aside in the savings account. The entire estate was found to consist of United States 4% Bonds, due in 1925. All well and good—no concern and no worry.

The Problem of Reinvesting

But a year or two ago it became apparent to me that the good wife, when the trust became due and the bonds matured, would expect husband to do the remarketing and the purchasing of new securities. And the bonds were of the face value of $59,000. This was a vast sum of money to me—more than I had ever handled or thought of handling. The idea of having the responsibility of this amount of money thrown on me overnight was quite overwhelming. I began to look for enlightenment.

THE MAGAZINE OF WALL STREET came to my assistance in making suggestions of various kinds and sorts. The broker's office in my home town contained financial periodicals and reports—good and bad. I read them all.

The will specified that the "said bonds be held in trust *in specie*." Inquiry from numerous lawyer friends as to the purport of this phrase "in specie" brought forth the information that it had but one meaning which was "exactly as they are." This blasted my hopes for any alteration in the form of the bonds.

November, 1919, came along and the United Kingdom of Great Britain and Ireland 5½% Bonds were put on the market at 96¼. Favorable comment was found everywhere. The post-war foreign loans at 8% were not yet coming out. This Great Britain loan carried one feature that impressed me strongly, namely, its convertible feature which permitted the holder at any time before maturity to convert bonds into British internal bonds at a rate of exchange of 4.30. Was not this the time to begin the unloading process, so that when that September, 1921, came the whole $59,000 would not be thrown on me at once? I was convinced that it was; and I had unlimited faith in the British Government and the recovering power of the British pound. I studied that bond, and I knew it as did no bond salesman. But how could the bonds be bought when the trust was yet two years from due?

Asked Banker's Advice

So I visited the vice-president of the bank and convinced him that a loan of $9,625 should be made to buy a $10,000 lot of the bonds, and to hold them as collateral to which I added a few shares of railroad stock I had purchased some years before. As I obtained the loan at 6%, it practically carried itself, and I felt that I had made a good beginning.

But bond bargains had really not yet come. When commodities went so high and bonds went so low, and THE MAGAZINE's graphs showed that high-grade bonds were lower than they had been since the Civil War, I felt that I should again make a leap. Would it not be advisable to add a $20,000 loan to the one already made, and thus wisely have invested one-half of the total amount of the estate at a time when bargains were on the counter, instead of waiting until an exchange *had* to be made? And then, with the 1925 Bonds at their bottom (being near their maturing date), and other bonds possibly at their top?

So Mr. Banker kindly and graciously received me again. He remembered my investments. I had prepared my list of bonds thoroughly and was ready to convince him. Mr. Banker agreed generally that the list was reasonably good. But he took a broader view of the situation:

"It is an unpleasant thing to think about death and accident," said he, "but would it put your wife in a trying and difficult position if you should die or become incapacitated and leave her with a $30,000 debt burdening her shoulders? And would it make sleepless nights for her if things in this country just went from bad to worse and worse—for we are living in times when anything can happen—and all of these bonds—good bonds—went down 10 points more, and then 20 points; and we called her on the phone one day and said: 'Please come in to see us tomorrow'; and then told her that a few more thousand dollars' worth of security would have to be given or the bonds would be sold?"

Well, I had selected those bonds because they would carry themselves and save us all trouble. I was a pretty sad boy when I left the vice-president's office. But I was convinced that I did not want to saddle on to my family any $20,000 debt that wasn't backed by a corporation at least as strong as the British Government.

And yet THE MAGAZINE OF WALL STREET *did* say it was the lifetime opportunity. Bonds were dragging the bottom. The Liberties were by this time yielding nearly 6%. The opportunity would not return in the lives of the present generation. Each issue, each page kept saying it over and over. I couldn't miss it. The adviser in whom I had faith was urging in its pages, "Act, Act, Act!" What was I to do?

A Way Out Occurs

At last the light dawned. In spite of the terms of the will, in spite of the severity of the judge, in spite of the exact disposition of the trustee, would not he listen to reason and change one form of government bond to another without reading the will and the law too strictly? Would he not wink an eye while his banker was transferring the 1925 4s to Liberties of more acceptable interest rates and maturity dates?

So a letter was sent to the middle west to sound out the trustee. He was known to be most conservative and most strict. A few days later came further advice that "we had better let good enough alone." But good enough didn't suit me.

I took a train for the little town in the west.

With all the logic on my side, it was not hard to convince the trustee that an exchange should be made. He was satisfied to have me write the letters and pick out my own issues. Many questions had to be weighed. First there was the British bond debt to be paid; so I concluded that $9,000 should be left in the 1925 4% issue. It was certain that these bonds would not change appreciably in price. With the cry of "panic" in the air, it was not certain what might happen to Liberties at the moment cash was required. The remaining $50,000 should go into Liberties. The classes had to be selected with reference to the age of the children—their college careers had to be provided for in case of unforeseen conditions; a permanent residence had eventually to be built for the family; the bonds had to be selected so they would not come due in the same year and duplicate one of the conditions we were now trying to avoid; and they should be spread along for convenience in reinvesting and insuring parity.

The Liberties were on the bottom, yielding 5½ to 6%, while the 1925 4s, because of their peculiar feature by which national banks could use them for security in the issue of paper money and because they were absolutely non-taxable in any amount whatever, held their own, and were still selling around 106, yielding less than 2¾%.

The Final Solution

My final solution of the problem was this:

Sell $50,000 1925 4s at 105¾, plus interest, less commission......	$52,943.75
Buy $15,000 Third 4¼ Liberties at 86.60, plus interest.........	13,103.40
Buy $11,000 Victory 4¾ at 95, plus interest..................	10,673.52
Buy $20,000 Fourth Liberties at 83, plus interest..............	16,680.40
Buy $15,000 Second Liberties at 82.60, plus interest..........	12,397.08
Total..........................	$52,854.40

The old bonds were sold and the new bonds were bought at these prices. This increased the face value of the estate by $11,000, increased the interest by $647.50 per year, and left the estate in exactly the condition wanted instead of being burdened by bonds that had fulfilled the great-

est service of their lives, and would have to be sold at a time when they were at their lowest and other issues were probably far above the bargain prices.

After this transaction had been put through I particularly liked the advice given by the vice-president of the bank. But more than anything else I appreciated the *driving force* of the articles in THE MAGAZINE OF WALL STREET that would not permit me to say "I'm through; I've done everything I can." And I am frank to admit that it was that spirit and that driving force that made me think; it didn't tell me what to do; it didn't have my case in mind; but it gave the basic existing conditions, impelled me to action, **and made me use my head.**

Meaning of "Financial Independence"

What does a young man mean by financial independence? It is entirely a comparative term. With a determination to "use my head," read intelligently and continually the best authorities on financial conditions, particularly with regard to fundamentals and specifically with regard to the stocks and issues I have picked out to be followed and bought, the independence will come. It cannot be accumulated by **the same nor an exact** amount each year; there will be lean years and fat ones; buy when they are low and sell when they are high; have infinite patience and wait until they go near your mark. Careful study, patient waiting, mature consideration, and then intelligent action are the basic principles I am trying to follow. Buy a good security backed by a number of years of earning power, and sell when a reasonably good profit can be taken; but both gauged by the fundamental conditions of the "long swing" movement. Of my wife's $70,000, $60,000 is to ever remain in gilt-edge bonds against which only the minimum risk is to run. Ten thousand dollars is to be used for the "long swing" operation of high class stocks of long dividend records. But both bonds and stocks are to be sold and bought when occasion shows such action to be advisable—they are not to be laid aside and forgotten, except on dividend and coupon dates.

Our other funds are in stocks or reserved for stocks. All our surplus funds, including *every* dividend, are placed in a saving account until the time comes to buy stocks; approximately 50% of our free money is now in railroad stocks, and 50% waiting for the low point to come in industrials. (We expect this soon.)

The rails have been accumulated over the past several years and without the study they should have had. Consequently some of them show a loss on purchasing price. They are now working back, however. The following stocks I hold, or have held, in lots of from three to ten shares (except 20 Northern Pacific), and are of the class of security I expect to confine my interest to:

Illinois Central	B. F. Goodrich Co.
Union Pacific	Republic Iron & Steel
Baltimore & Ohio	American Woolen
Northern Pacific	Atchison
New York Central	U. S. Steel
American Tel. & Tel.	General Electric
Kennecott Copper	

By selling my five-share lots of Republic and American Woolen some months ago I recovered part of my loss on Goodrich (a mistaken buy), and gained an experience that I hope will show how and when to take profits later to greater advantage.

In brief, my method is to follow only certain selected securities, to study them carefully, wait patiently, buy when low and sell when high as determined by the long swings and influenced by fundamental conditions, and, most of all, to expect good judgment and intelligent action in attaining financial independence as in every other phase of life's activities, to reap its just reward.

The Mortgage Investor

What a "Mortgage" Is—The Most Common Types—Difference Between Chattel and Real Estate Mortgages

THE legal device known as a mortgage, because it is the fundamental means of securing the payment of a debt and because modern business is conducted on credit, has become the foundation of a large percentage of the world's investment securities.

The popular division of corporate financing into that represented by bonds, an evidence of money borrowed, and that represented by stocks, evidencing capital subscribed by participants in the risks and profits of the business, seems to indicate that capital subscribed ranks in importance with capital borrowed. This is undoubtedly true in the sense that share capital is more actively dealt in on the exchanges than bond capital, and that share capital almost invariably carries active control of the business. But the fact remains that borrowed money, on the security of some sort of mortgage, is the backbone of business credit. The extent to which share capital itself is "mortgaged" in the numerous instances where shares are deposited as security for collateral trust bonds, or where individual shareholders pledge their stocks for bank loans, shows that even where the capital of a business is nominally subscribed outright, its ultimate source may be in some form of credit secured by a pledge.

> ***THIS is the first of a series of articles discussing the various forms of mortgages as developed to meet the requirements of individual investors. Subsequent articles, dealing with real estate and farm mortgages, the investment features of mortgages as compared with corporation bonds, etc., will, we believe, offer much practical assistance to the many readers of The Magazine who are interested in this field.***

Corporation Bonds Not the Only Mortgage Security

Many investors, when they think of a mortgage, think of a claim securing a corporate bond issue. The fact that such bond issues are often listed on the exchanges and that detailed information regarding their security is available in the investment manuals, has caused the mortgage bond to be widely regarded as a standard form of investment. Such, indeed, it is, but it is by no means the only standard form of investment in negotiable obligations. **It is the purpose of these papers to discuss and to describe in detail other forms of mortgage security which are available for individual investment and which have become standardized, safeguarded and popularized to a degree little suspected by the average investor.**

At the outset it will be necessary to consider something of the nature of a mortgage and some of its many forms. What is a mortgage? It is a pledge, involving absolute or conditional transfer of title to property, but void if certain obligations are performed, given by a debtor to a creditor to secure payment of a debt by the debtor to the creditor or his assignee. This definition makes no pretense to legal exactness, but it will answer all ordinary purposes. Invention of mortgages on real estate is credited to the ancient Babylonians, but it is certain that the Anglo-Saxons, early in the Christian era, were familiar with the device. Two forms were used, one involving the actual possession and administration of the property mortgaged, the other apparently being merely a security for a debt, with transfer of the property to the lender depending on the failure of the debtor to make payment on the date fixed. This latter form was known (possibly after the introduction of the French element into England) as the "mort-gage," or dead pledge. The French word gage or wager, implying a pledge, traces back to the Latin, so that it is safe to assume that a more or less highly developed form of mortgage was known to a number of the ancient peoples.

Any doubts as to the antiquity of a pledge for securing a debt are set at rest by the law transmitted to Moses, along with the delivery of the Ten Commandments on Sinai: "If thou at all take thy neighbor's raiment to pledge, thou shalt deliver it unto him by that the sun goeth down. For that is his covering only, it is his raiment for his skin: wherein shall he sleep? And it shall come to pass, when he crieth unto me, that I will hear; for I am gracious." This suggests the existence of a highly developed and not too rigorous code of mortgage law among the Israelites in the period of their exodus from Egypt.

Chattel Mortgages

The form of pledge referred to in the above quotation would be known today as a chattel mortgage—in other words a mortgage on personal property as distinguished from real estate. Chattel mortgages do not enter largely into the fabric of modern financial methods, unless we regard the security behind the equipment trust obligations of railroads and street

(*Continued on page* 705)

Providing for Your Inheritance Taxes

How to Insure Your Estate Against Forced Sales of Property or Securities

By **HENRY M. BRISTOL**

WHEN the time comes for your affairs to become the affairs of your estate, one of the first things your executor must do is to find the money to pay your Federal and State Inheritance Taxes; and payments must be made within a limited time, for the Government is an inexorable creditor.

If the required amount of available cash is lacking, securities or real estate must be sold. With values at a low ebb, as they are at the present time for instance; or on a falling market, or in a time of panic, such a forced sale would undoubtedly mean great sacrifice, and might cause a complete destruction of your estate. It has done so in many instances.

Unless you are willing to set aside (either in cash or Liberty Bonds acceptable in payment the same as cash) a reserve fund for the total estimated amount of your inheritance taxes, which involves **an outlay in advance of the entire amount,** there is only one way to properly provide for this contingency:

That is the taking out of enough life insurance to cover the liability. The initial outlay is usually, roughly speaking, somewhere in the neighborhood of three per cent of the amount required. Fortunately this solution of the problem is available in the case of any insurable life.

I say **fortunately,** for men of affairs with broad interests in financial and industrial development, can ill afford to keep idle capital in the bank for an unknown period and in a sum sufficiently large to pay the amount demanded by the State and Federal Governments in the event of sudden death.

Provisions of Federal State Tax

Coming down to specific facts, let me state that the present Federal Estate Tax (H. R. No. 12863) became effective February 15, 1919, and applies to the estate of every decedent dying after the passage of the act.

Section 402 provides that the gross estate of the decedent shall include all property, real or personal, tangible or intangible, wherever situated; and Paragraph F specifically includes the following:

To the extent of the amount receivable, by the executor as insurance under policies taken out by the decedent upon his own life; or to the extent of the excess over $40,000 *of the amount receivable by all beneficiaries as insurance under policies taken out by the decedent upon his own life.*

Section 403 provides for certain deductions from the gross estate including administration expenses, etc., etc., and a specific exemption of $50,000. The net estate, the amount of which is determined as above outlined, is then subject to the estate tax as given in Table I herewith.

TABLE I.—FEDERAL GOVERNMENT TAX.

Levied on Estates of Varying Amounts.

Rate of Tax	Total Net Estate		Tax	Total Tax
1% on first ...	$50,000	$50,000	$500	$500
2% on next ...	100,000	150,000	2,000	2,500
3% on next ...	100,000	250,000	3,000	5,500
4% on next ...	200,000	450,000	8,000	13,500
6% on next ...	300,000	750,000	18,000	31,500
8% on next ...	250,000	1,000,000	20,000	51,500
10% on next ...	500,000	1,500,000	50,000	101,500
12% on next ...	500,000	2,000,000	60,000	161,500
14% on next ...	1,000,000	3,000,000	140,000	301,500
16% on next ...	1,000,000	4,000,000	160,000	461,500
18% on next ...	1,000,000	5,000,000	180,000	641,500
20% on next ...	3,000,000	8,000,000	600,000	1,241,500
22% on next ...	2,000,000	10,000,000	440,000	1,681,500

25% of the amount by which the net estate exceeds $10,000,000.

What the Chart Shows

It will be noted from this chart that the tax is on a progressive basis upon estates up to $10,000,000, and that on estates of a greater value than $10,000,000, the rate is a flat 25% on the excess.

The above refers only to the Federal tax; it should be remembered that in addition to this, there are State taxes as well. In other words, under the national law and under the laws of most all of the States, all estates of fair size **must pay three separate and distinct death taxes:** First, the Federal Estate Tax to the Federal Government; second, the State Inheritance Tax to the decedent's residence State, and third, non-residence transfer taxes to States in which the decedent owned property at the time of his death.

The operation of this triple death tax charge can best be illustrated perhaps by showing, as tabulated in the accompanying chart, the taxes falling upon a typical estate of a deceased resident of Pennsylvania. The Federal Tax here noted was under the Acts of September 8, 1916; March 3, 1917; October 3, 1917, which have since then somewhat modified, but it will serve for illustration.

Plan Has Wide Appeal

By the foregoing it will be clearly seen that there is an exigency that demands the serious attention of every man possessed of an estate large enough to be seriously affected. Leading financial and business men of the country have been quick to realize the value and potency of the suggestion, **"make the event which causes the tax create the cash to pay the tax."**

Men of national repute who have found no other use for insurance on their lives, have found a solution of this problem in life insurance. J. P. Morgan was one of the first, I believe, and led the way by insuring his life for $2,500,000 and his ex-

(*Continued on page* 716)

SCHEDULE OF ESTATE AND INHERITANCE TAXES ON ESTATE OF JOHN DOE, DECEASED, OF PENNSYLVANIA.

Name of Security or Holding	Amount Taxable under Federal Acts of Sept. 8, 1916, March 3, 1917, Oct. 3, 1917	Amount Taxable under Decedent's Resident State, Pennsylvania	Non-Resident Transfer Taxes: New Jersey	Illinois	New York	Virginia	West Virginia
U. S. Liberty Loan 4's	$100,000	$100,000					
Penna. R. R. Stock	100,000	100,000					
Public Service Corp. of N. J. Stock	80,000	80,000	$80,000				
C. B. & Q. 4's	50,000	50,000		$50,000			
N. Y. City Bonds	200,000	200,000			$200,000		
Mortgages on N. Y. Property	100,000	100,000			100,000		
Timber Lands, Va.	65,000	65,000				$65,000	
Coal Lands, W. Va.	135,000	135,000					$135,000
Midvale Steel & Ordnance Co. Stock	100,000	100,000					
Corn Exchange Bank Stock	100,000	100,000					
Promissory Notes	20,000	20,000					
Cash in Bank	22,000	22,000					
Real Estate in Pa. (home)	75,000	75,000					
Furniture, Paintings, Books, etc.	50,000	50,000					
Automobile	3,000	3,000					
	$1,200,000	$1,200,000	$80,000	$50,000	$300,000	$65,000	$135,000
Exemptions	65,000		5,000	20,000	5,000	15,000	15,000
Amount subject to Tax	$1,135,000	$1,200,000	$75,000	$30,000	$295,000	$50,000	$120,000
Amount of Tax	$94,150	$24,000	$875	$300	$8,850	$500	$2,125
Total amount of Estate and Inheritance Taxes					$130,500		
Post-Mortem Pro Rata Income Tax					9,500		
Total Death Taxes					$140,000		

Public Utilities

Bonds and Stocks

Western Union Telegraph Co. **_The Mackay Companies_**

Two Consistent Earners

Western Union's Income Has Justified Regular Dividends Since 1881—Mackay System the Company's Only Rival

By J. C. LESLIE

THE great network of telegraph and cable lines has done more to bind the world together than any other invention of the past century.

The first public telegraph line the world had ever seen was opened in 1844, but it was not until 14 years later that communication with Europe was made possible through the laying of the first successful Atlantic cable by Cyrus W. Field on the *Great Eastern.* The American terminus was at Hearts Content, and this station, so beautifully located in a natural amphitheatre of hills, is still one of the country's big cable stations.

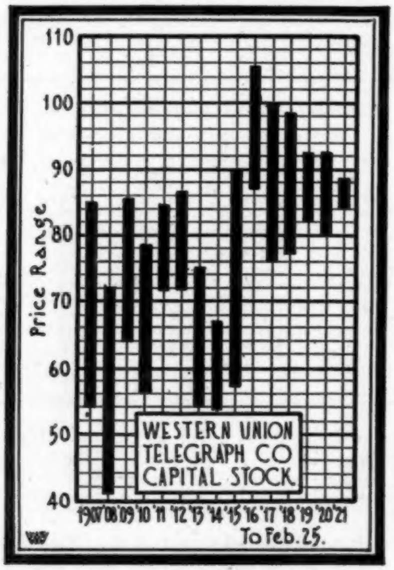
The initial message sent over the first telegraph and later over this first cable, marked memorable steps in the progress of civilization. The first saw the dreams and the years of labor and discouragement of Morse come to a fruitful end. The second eliminated oceans as an obstacle to the intercourse of nations. From this small beginning about 150,000,000 messages each year are now flashed over the wires of the Western Union System.

Operates Over a Million Miles of Wire

The company operates in the United States alone more than 200,000 miles of pole line, 1,000,000 miles of wire exclusive of railroad wires, and over 25,000 offices. It stands in a place all its own among privately owned enterprises for wide diffusion of service.

Great strides have been made in the equipment and in the service during recent years. The large increase in business has brought into use the automatic or multiplex printing telegraph system, by means of which eight messages can be transmitted simultaneously over one wire—four messages going in each direction. The sending operator writing the message by means of a typewriter keyboard, perforates a special tape and the tape so prepared then runs through an automatic transmitter. This method of operation has vastly increased the carrying capacity of the wires and the benefit to the company financially has been large. Over half of all the traffic is now handled by use of this automatic system. All the apparatus is carefully maintained and inspected in order to reduce machine errors to a minimum; and to prevent losses of messages in operating rooms, regular inspections at stated intervals are made.

To eliminate interruptions of service due to breakdown of equipment, every possible precaution is taken. Special wires connect the dispatching centers, and special circuits radiate from each center to practically all important points, thus insuring the closest co-operation and permitting prompt rearrangement of trunk circuits in times of stress. Of immense help in meeting the varying requirements is a chart



showing every wire in the land line service, with its number, material, gauge, the route it follows, etc. When one inspects this enormous piece of work, nothing but admiration, akin to awe, is felt for the thorough and complete work of American genius. Nowhere in the world has such painstaking care been exercised to furnish the human race with service.

Co-operation Between Branches

Only by the closest co-operation between the various branches of the service has it been possible to maintain this great organization, and it was due primarily to the unceasing efforts in the development and installation of the automatic printing apparatus and to this co-operation that the company was able to cope with the sudden and tremendous pressure of business arising from the war.

In addition to the land service, the Western Union operates over 23,000 nautical miles of ocean cable.

A new and specially designed building in New York City has been equipped with every modern facility for handling the cable traffic and it may be very appropriately compared to the hub of a wheel. Eight of the spokes are the transatlantic cables, duplexed and working automatically at high speed representing 16 copper wires binding the new world with the old, and carrying the tremendous European correspondence of the Western Union cable system. Other lines reach out and connect with the Southern Hemisphere and with the Far East. In fact, this central office forms a clearing house for the distribution of the world's telegraphic correspondence. Some of the fastest service over the Atlantic cables is in connection with the cotton business, messages sent from Liverpool being delivered on the floor of the New York Cotton Exchange in two or three minutes. The most difficult and most arduous work of all, is the proper maintenance and repair of these cables, and much depends on the commanders and crews of the ships employed in this work.

TABLE I.—WESTERN UNION TELEGRAPH CO.

Year Dec. 31	No. Times Bond Interest Earned	Net Income	Capital Stock % Earned	Capital Stock % Div. Paid	Surplus
*1911	4.10	5,371,968	5.33	3	2,380,663
*1912	4.14	4,003,554	4.01	3	1,011,731
1913	3.42	3,234,917	3.24	3	242,671
1914	5.01	5,371,385	5.33	4	1,352,500
1915	8.61	10,167,592	10.19	5	5,181,228
1916	11.18	13,561,830	13.50	6	7,577,263
1917	11.78	14,365,366	14.40	7	7,383,008
1918	16.00	11,610,813	11.64	7	4,637,422
1919	24.57	13,083,656	13.11	7	6,101,186
†1920	10.60	12,784,750	12.82	7	5,802,278

* Years ending June 30.
† Month of December estimated.

Western Union Seventy Years Old

The Western Union Telegraph Company was founded seventy years ago. It was incorporated in 1851 under the laws of New York as the New York & Mississippi Valley Printing Telegraph Company.

In 1856 the title of the corporation was changed to the present one.

At various times during its history, the company has acquired the stocks of other companies in different parts of the country. In 1909 it was stated that the American Telephone & Telegraph Company had obtained control of a large minority interest in the stock of this concern, and owned, at that time, almost $30,000,000 of the outstanding stock. In 1914, in accordance with an agreement between the Department of Justice and the American Tel. & Tel. Co., the latter sold its entire holdings of this stock to a banking syndicate, and the privilege was given to the other stockholders of the Western Union to subscribe for same at $63 per share in amounts equal to 40% of their holdings. At present the outstanding capitalization of the company consists of $31,994,000 funded debt and $99,786,727 capital stock.

The dividend history of this company is unique. Ever since 1881 the management has paid dividends each year on its capital stock. Not only has the company been able to show good earnings, but the property and plant have been maintained in most excellent condition. Large sums have been spent in improvements and betterments and in the installation of new and modern equipment. In a concern of this character the extension of its services is absolutely essential and every means for perfecting this service has been used.

During the past six years the earnings have been very large and have totaled over $75 per share on the capital stock. Of this amount only $39 per share has been paid out as dividends, leaving a balance of $46 to be carried to surplus and to be used in increasing the working capital. From the stockholders' standpoint the company is indeed fortunate in that it has the use of almost $32,000,000 funded debt at 5% or less. In fact the greater portion of this funded debt bears an annual interest rate of less than 5% since the $20,000,000 Funding and Real Estate bonds due 1950 are at 4½%.

The earnings of this company have always shown up well and the management has been unusually conservative in their policies of declaring dividends. The energy and thoroughness with which the concern is conducted bids fair to assure a prosperous future.

THE MACKAY COMPANIES

The only important competitor of the Western Union Telegraph Company is the Mackay companies. This latter concern is a voluntary association formed under the laws of Massachusetts in 1903 in order to consolidate the holdings of stockholders in the "Commercial Cable" submarine system and in the "Postal Telegraph" system, and also to acquire interest in and finance other telegraph, cable and telephone companies. This holding company owns all or part of the capital stocks of over 100 cable, telephone and telegraph companies in the United States, Canada and Europe, including the entire $25,000,000 stock of the Commercial Cable Company and the various companies constituting the land-line system known as the Postal Telegraph system. The policy of the Mackay companies is somewhat along the lines followed by the American Telephone & Telegraph Co. in that it receives by way of dividends, only an amount sufficient to pay whatever may be declared, on a conservative basis, upon the Mackay Companies' shares, and to leave surplus earnings for the development of the business and increase of reserves of the operating companies.

The business of the corporation showed such an increase in the past few years that the management decided to string 24,000 miles of new copper wire between the commercial centers of the country. This involved the purchase of approximately 5,000,000 pounds of copper and practically all of these wires had been strung and were in service during February of last year. The new wires have been transposed as they were placed in position, thus rendering them available for the enlargement of the long distance telephone service given by the land line system. This long distance telephone service is being constantly extended throughout the country.

In accordance with the policy of the management to maintain the cable, plant and equipment of the system in the highest state of efficiency, renewals of parts of the oldest cables are being made and improved apparatus is also being installed which will greatly increase the carrying capacity.

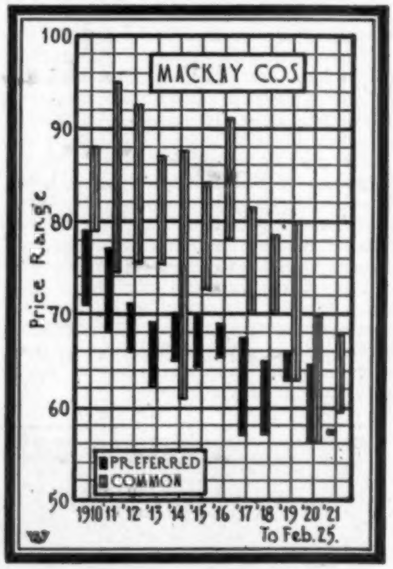
The company has no funded debt, the outstanding capitalization of the system being divided into $41,380,400 common stock and $50,000,000 4% cumulative preferred. The preferred stock has preference in event of liquidation to par and accrued dividends, but is subject to redemption at the company's option at 106 and accrued dividends. Both the two classes of stock have equal voting rights.

The dividend record of the company is good. Preferred dividends have been maintained regularly, and since 1905 dividends on the common stock have been paid each year. At the present time, the preferred is receiving its regular 4%, and the common a 6% dividend both payable quarterly from January 1.

TABLE II.—MACKAY COMPANIES

Year Feb. 1	*Net Income	Preferred Stock % Earned	Preferred Stock % Div. Pd.	Common Stock % Earned	Common Stock % Div. Pd.	Surplus
1911	4,088,712	8.17	4	5.05	5	19,698
1912	4,096,399	8.19	4	5.06	5	57,879
1913	4,104,685	8.21	4	5.09	5	35,065
1914	4,171,828	8.34	4	5.25	5	166,805
1915	4,185,420	8.37	4	5.28	5	116,400
1916	4,219,200	8.44	4	5.36	5	140,180
1917	4,626,466	9.25	4	6.35	5	557,446
1918	4,430,306	9.12	4	6.01	6	5,108
1919	4,394,376	9.22	4	6.01	6	5,099
1920	4,376,211	9.35	4	6.05	6	20,223

*Note.—Company receives by way of dividends only an amount sufficient to pay conservative dividends on the Mackay shares.



Conclusion

In view of the fact that the telegraph companies fulfill a basic service which is increasingly important to the business life not only of this country but of the entire world, their future is assured. This business has grown steadily and has been little influenced by conditions which affect other kinds of business. The concerns furnishing this service are thus able to operate with a lower margin of surplus earnings than would be safe in general industrial undertakings.

Thus the essential character of this business, the excellent earnings and dividend records of these concerns, the bright future prospects and the intrinsic soundness of these systems place the securities of the Western Union Telegraph Company and the Mackay Companies in a unique position, and they deserve the careful consideration of all thoughtful investors.—W. Union vol. 25, p. 48, Mackay Co. vol. 25, p. 48.

CALIFORNIA'S POWER SHORTAGE

James R. Nourse, Director of Research of the Bureau of Economics, has sent to the 1,500 banks and financial houses of California the following report covering the effect of the shortage of hydro-electric power upon the business of the state:

"The shortage in hydro-electric power in California during the past year amounted to 20 per cent. of total demands. In other words, in 1920 our various industrial and agricultural enterprises needed 100,000 horsepower more than they were able to obtain.

"In order to make apparent what this shortage really meant to the business of the state, it is necessary to translate this shortage of electricity into terms of every-day business.

"Therefore, the 100,000 horsepower of hydro-electric energy which California was short last year meant that we lacked power and light to serve 64,500 residences, 1,000 factories, and the power to irrigate 300,000 acres of land."

Mining

International Nickel Company

Nickel in Period of Restricted Earnings

Foreign Business at a Minimum—Shares Have Speculative Possibilities Under Improved Conditions

By C. S. HARTLEIGH

THE International Nickel Company is a holding company which owns the entire capital stock of the International Nickel Co. of Canada, Limited, the operating organization in whose hands are concentrated the mining and smelting operations in Canada formerly conducted by the Canadian Copper Co., together with the refining operations at the Port Colborne plant, Ontario, and at Bayonne, N. J. The company also owns the Orford Copper Co., the Anglo-American Iron Co., Vermilion Mining Co., American Nickel Works, Nickel Corporation of Great Britain, the Huronian Co., Ltd., and the Société Miniere Caledonienne.

Most of Its Ore From Creighton Mine

Practically all of the ore used by the International Nickel Co. of Canada, Limited, is supplied by the great Creighton mine, in the Sudbury district, Ontario, six miles west of Copper Cliff. The first active mining operations on the property were begun in 1901, and by the end of the year the daily production was about 500 tons. The production increased rapidly, and during the war period exceeded the rate of 5,000 tons a day. The total production to the end of 1919 is estimated at about 8,875,000 tons. The mine is now known as the greatest nickel deposit in the world.

The orebody dips at an angle of about 45 degrees, and is known to extend downward a distance of over 2,500 feet. The deposit is somewhat lenticular in general outline, but irregular in width, being quite narrow at some points, and widening out to a maximum of 375 feet, with an average width of over 100 feet. The horizontal length of the orebody varies from 1,000 to 400 feet, depending upon the depth at which the measurement is taken. The developed ore reserve is large, and it is estimated that it would last from 6 to 8 years at the maximum rate of production.

The ore is quite uniform in character, and contains the sulphide minerals called pyrrhotite, chalcopyrite and pentlandite. The country rock in which the deposit is found is called norite. A typical analysis of the ore would be 1.5% copper, 4% nickel, 24% sulphur, 42% iron, and 17% silica.

First Worked as Open Pit

The mine was first worked as a large open pit, or "glory-hole," from the surface, but as increased depth made this method dangerous, underground systems of mining were adopted. At present, main drifts are driven in the foot-wall, or underneath the orebody, and from these are driven crosscuts through the ore. The orebody is divided transversely into alternate stopes 6 feet wide, and rib pillars 15 feet wide.

Three shafts have been sunk, but shaft No. 3 is now the main working shaft through which all the ore is hoisted. This shaft is sunk at an agle of 55 degrees, and has a total inclined depth of 1,941 feet. Its dimensions are 33 feet 2 inches by 7 feet 6 inches, outside timbers, and it is divided into 5 compartments, which are 5 feet 10 inches by 6 feet 6 inches in the clear.

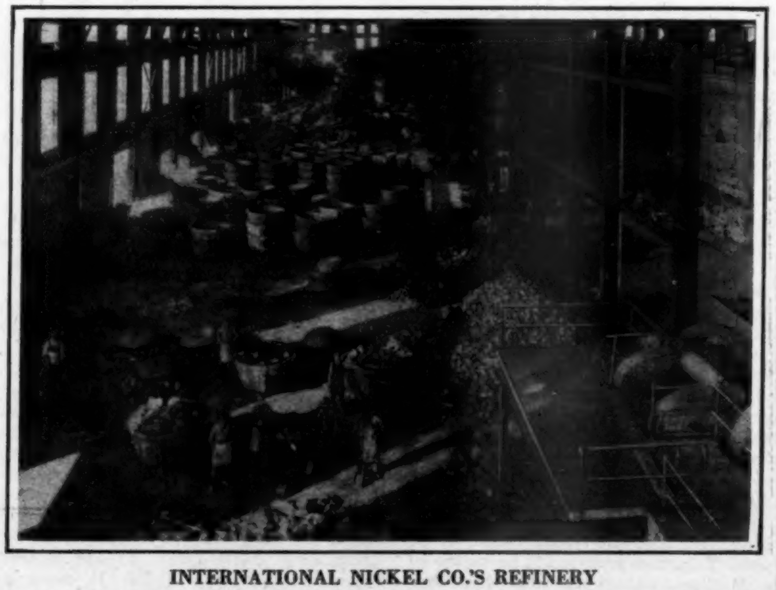
The ore is hoisted in skips of 9-ton capacity, and the waste-rock skips are of 5-ton capacity. Ore skips, rock skips, cages, and supply trucks are operated in balance and are interchangeable. A continuous system of ore passes carries the ore to central underground crushing stations, whence it is passed to loading stations located below the 14th and 20th levels. These two loading stations are equipped with measuring boxes, from which the skips are loaded.

The shaft, shaft stations, and all haulage levels are fully equipped for most orderly and efficient operation. The hoist is electrically operated, underground haulage is accomplished by the use of storage-battery locomotives, the pumps are motor-driven, the rock drills are operated by compressed air supplied by electrically-driven compressors, the mine workings are electric lighted and equipped with underground telephones at all important stations. The pumping problem is simple, as only seepage water has to be handled. Natural ventilation supplies air for the deepest workings.

The rock house is constructed of steel and brick, and is designed to handle a large tonnage and provide plenty of room for the required number of ore sorters and pickers. There are three picking floors, and the different size particles of rock are screened out and treated separately on different floors. The building stands on concrete pillars directly over the railway track on which the receiving cars draw the sorted product from the storage bins.

Ample Equipment

The company has its own machine



INTERNATIONAL NICKEL CO.'S REFINERY

Interior of the Cupola building at the Port Colbourne plant where the nickel-copper matte from the smelter is further refined in furnaces

shops, blacksmith shops, carpenter shops, and warehouses, and the general layout of the surface plant is designed to secure the maximum convenience and efficiency. The underground workings of the mine, as well as the surface yards, are perhaps the most orderly of any metal mine in existence.

The method of treating the ore includes roasting to reduce the amount of sulphur, smelting in a blast furnace or reverberatory, and converting the matter in basic converters. The roasting is done in large heaps in the open, at O'Donnell, on the Algoma Eastern Railway, 16.5 miles by rail, or 9 miles by air line due west from Copper Cliff. The smelting and converting are accomplished at the plant at Copper Cliff, and the matte, which contains about 80% copper-nickel alloy, 0.5% iron, and the balance sulphur, is shipped to the refinery at Bayonne, N. J., or to Port Colborne, Ontario, for refining.

At High Falls, on the Spanish River, about 28 miles from Sudbury, the company has built a large concrete dam and reservoir for storage purposes, and has erected and equipped power plants having an aggregate capacity of over 15,000 horsepower. This power is transmitted to the company's plants at the Creighton mine, and Sudbury, and will eventually be used elsewhere. The hydro-electric power development has been costly, and it may be some time before the company can derive full benefit from the expenditure.

The company owns also two other mines, namely, the Crean Hill mine, about 2 miles east of Victoria, and the No. 2 mine at Copper Cliff. The Crean Hill mine is opened by an inclined, 4-compartment shaft, 780 feet deep, and its normal production is about 450 tons per day. The No. 2 mine is developed to a depth of 860 feet, and has produced about 200 tons of sorted ore per day. During 1918, the property produced 1,230,000 tons. It is estimated that this property contains very large reserves of low-grade ore, which will be operated on a large scale when the Creighton mine approaches exhaustion. Including all low-grade ore deposits in the company's properties, the ore reserves have been estimated at around 20,000,000 tons of workable material.

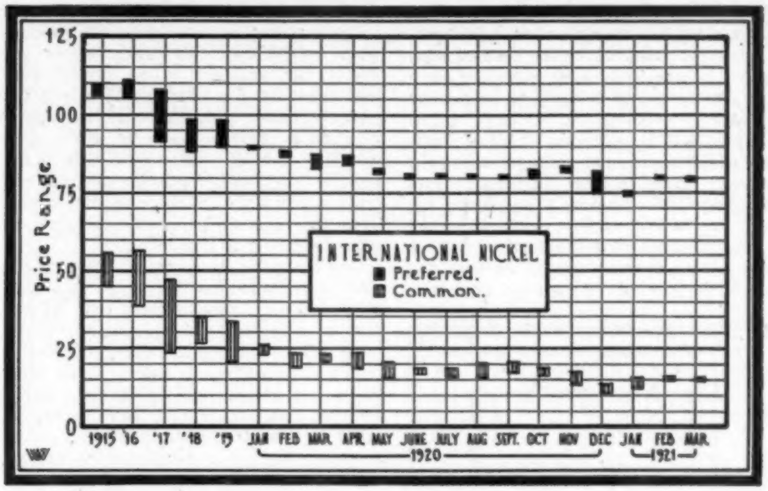
The Port Colborne refinery, near the Lake Erie entrance of the Welland Canal, was erected at a cost of about $5,000,000, and under normal conditions has a capacity of about 15,000,000 pounds of nickel, and 8,000,000 pounds of copper annually. This plant was completed in 1918, and was built during the war period, under political and sentimental pressure, to the end that the company should produce considerable finished product within the Dominion of Canada.

The company owns docking facilities and railroad connections on the Kill-von-Kull, with unloading devices to handle its supplies.

Recent Business Restricted

During the past year or two the company's business has been affected adversely by conditions incident to the period of industrial reconstruction. The demand for the company's products, which was at its height during the war period, has faded away. The consumption of nickel has been reduced by large stocks of the metal, in both governmental and private hands, as well as by large quantities of secondary or scrap metal. Large unsold stocks are still on hand, and are being very slowly liquidated.

Foreign business in the metal is rather small, due chiefly to the difficulty of



financing purchases, and domestic consumption has been held down by industrial depression, labor disturbances, and interrupted transportation facilities. During 1919, the company's output declined to about 30% of its capacity, then rose to about 60% in March, 1920, and again declined until, at the present time, operations are sufficient to barely maintain the organization.

Earnings have fallen off rapidly since 1917, which was the company's best year, and have naturally been affected by the

TABLE I.—INTERNATIONAL NICKEL.
Dividend Record.

Year	Pfd.	*Com.
1912	$1.50	$2.00
1913	6.00	10.50
1914	6.00	10.00
1915	6.00	†17.50
1916	6.00	6.25
1917	6.00	‡5.75
1918	6.00	4.00
1919	6.00	.50
1920	6.00	0
1921	6.00	0

*Par value changed from $100 to $25 on Jan. 18, 1916.
†Also a 10% stock dividend on Nov. 1, 1915.
‡Includes Red Cross dividend of 25c.

TABLE II.—INTERNATIONAL NICKEL STOCKHOLDERS.

Year*	Stockholders
1917	9,252
1918	12,824
1919	16,058
1920	15,653

*March 31.

reduced demand from nickel consumers, by the drop in the price of copper, and by high costs of production. The company's dividend record since 1912 is shown in Table I.

Importance of Company's Monel Metal

The company has continued its vigorous campaign to develop the market for its monel metal, which is a natural alloy composed of 67% nickel, 28% copper, and 5% other metals. It is highly advantageous for the company to dispose of this metal, in view of the fact that it is a natural alloy wherein the two metals, nickel and copper, occur in proportions corresponding to their occurrence in the ore as mined. The alloy is strong, tough, and ductile. It finds use in the marine field because of resistance to the corrosive influence of salt water and sea air, but it is also used throughout many other industries because it withstands the attack of alkalies, high heats, and most acids. Some of the many uses to which the metal has been adapted are: valve trim, turbine blades, and pump liners and rods, in contact with high pressure superheated steam; propellers, deck fittings, stern bushings, rudders and other parts which come in contact with salt water; valves for combustion engines, ignition chambers for oil engines, needle valves on carburetors, where extremely high temperatures are involved; rods, bolts, screws, and valve parts, which come in contact with acid solutions at various temperatures; various parts used in dyehouse equipment, which comes in contact with acid and alkaline solutions; mining machinery parts, pump liners, and rods, which come in contact with alkaline water; automobile fittings and parts, which are exposed to the weather, including brake release lever grips and handles, and ball bearings; dairy machinery; packing-house equipment, which comes in contact with salt water; and numerous miscellaneous uses, many of which involve in the aggregate considerable quantities of the metal, such as storage-battery castings, meat-slicing machines, golf-club heads, ornamental trimmings on buildings, glass factory equipment, which comes in contact with hot glass, incinerator and sewage-handling machinery, wire netting and screens, laundry machine parts, refrigerating machinery and refrigerators, knives, forks and spoons, and numerous novelties.

During 1920 considerable progress was made in the development of markets for both monel metal and nickel in various rolled forms produced by the company, and the prospects for expansion in this line are

(*Continued on page 731*)

Pittsburgh Coal Co.

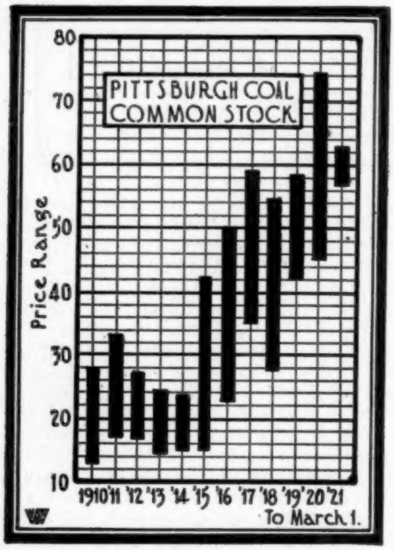
Peace-Time Prospects of Big War Earner

Pittsburgh Coal's Early Record Not Impressive—The Soft Coal Situation

By **A. T. MILLER**

STOCKHOLDERS of Pittsburgh Coal have had a refreshing view of the company's earning ability in time of war. Now they are wondering what the company's performance is likely to be in time of peace.

A glance at the earnings record of Pittsburgh Coal during the years preceding the war may furnish a clue. In the six years preceding 1916 or before the company began to benefit from war demands, Pittsburgh Coal earned a total of $3.25 a share on its common stock. In only one year in that period did earnings amount to



anything worth mentioning, and that was in 1913, when there was earned $2.59 a share. In five of these six years the company earned practically nothing on its common stock.

In fact, earnings during the period under discussion were barely sufficient to meet the preferred dividend requirement of $5 a share which was then in force. Analysis of the company's record during this period apparently does not lead to a favorable conclusion with regard to its earning power in peace times.

Cost of Production

Some of the soft coal companies have never had a wonderful record for earnings, except during the war years. In those years they did well, but otherwise they rarely enjoyed a good margin of profit. Certainly this was true of Pittsburgh Coal, which is the most important soft coal producer in the country.

Cost of production has been steadily increasing. In 1913 it cost Pittsburgh Coal less than $1 a ton to produce. By 1918 the cost had advanced to $2 a ton. Last April, according to a Government report, the average cost of soft coal mining was $2.66 a ton.

It is also true, of course, that coal prices advanced at the same time that costs were increasing, and in about the same proportion, except for 1920 when prices got beyond all reason. When prices were advancing the producers could afford the increased costs. Now that coal prices have dropped so severely, however, at the same time that costs of production remain at the peak, it is a question whether they can operate profitably. In other words, conditions approximating the old-time state of affairs are now at hand.

Obviously the producers will have to cut their costs down, but this is not as simple as it looks. Approximately 80% of the cost of soft coal mining consists of the labor item. The operators are not exactly in a position to modify their labor contracts, on account of Government interference, and even if they can "persuade" labor to accept a somewhat lower wage level the difference would not be enough to compensate for the lowered margin of profit. The wage cut would have to be very large to make an appreciable difference.

In the case of Pittsburgh Coal, it may be assumed that cost of production amounts to about $2.50 a ton. This is exclusive of all other charges, such as interest on invested capital, depreciation, etc. Pittsburgh Coal is now probably not getting more than $2.50-$3.00 a ton for its product. Its margin of profit, consequently, is not impressive.

One of the unfavorable features in the Pittsburgh Coal situation is that it is tied up with an unfavorable long-term contract with the United States Steel Corporation. This contract was made a number of years ago, and has still some time to run. The officials of the company have recently been making some efforts to persuade the Steel Corporation to adjust the contract. So far nothing has come of the attempt. Considering that this contract was made at a time when conditions in the coal industry were entirely different from what they are now, it can be readily appreciated that the Pittsburgh Coal people would be glad to have it changed more in their favor.

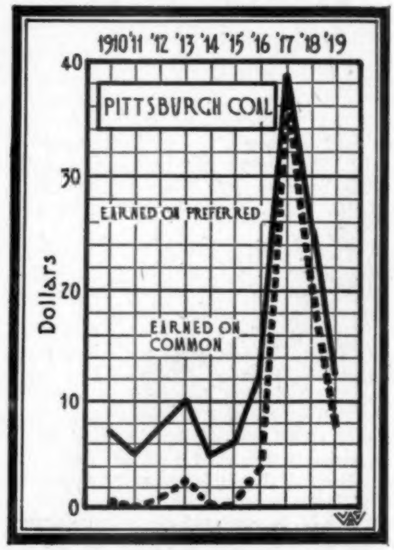
As stated above, Pittsburgh Coal profited greatly from the war Earnings were especially good in 1917 and 1918. In those two years there was a surplus of $53.32 a share after dividends. These earnings vastly strengthened the financial position of the company. In the following year, 1919, earnings were not so good, dropping to $7.46 a share. Nevertheless there was a small increase in the surplus, bringing this up to $55.78 for the three-year period, 1917-1919.

Operations in 1920

The company was afflicted last year by a series of unfortunate circumstances over which it had no control. Thus when coal prices were rushing upward and demand was keen, the company was unable to take advantage of this situation on account of the coal car shortage. Later on, when more cars became available, demand fell off and prices declined, so that the company was no better off than it was during the early part of the year. This was a tragi-comic circumstance. Despite these handicaps, however, the company earned about $17 a share last year. This year, however, the story will probably be entirely different.

Capitalization

Pittsburgh Coal has a funded debt of $18,000,000, including that of the subsidiary companies. It has $36,000,000 outstanding 6% cumulative preferred stock of $100 par value. Up to 1917 dividends had



been paid at the $5 rate, but in that year they were adjusted, and since have been paid regularly at the $6 rate. The authorized issue amounted to $40,000,000, but $4,000,000 of this now held in the treasury will be cancelled this year, leaving the outstanding amount of preferred stock at $36,000,000. The stock is inactive. Current quotations are about 86. This is a little high for a $6 stock, according to present standards, although the stock is certainly entitled to a good investment rating.

The common stock is not very attractive. Earnings for this issue, of which there is $32,169,200 outstanding in $100 par value shares, have been extremely irregular, and the probabilities are that a period of ordinary activity in industrial affairs will see this stock barely able to maintain the current dividend rate of $5 a share. Certainly in the years before the war it did not once show that it could maintain a $5 dividend rate. Considering that record and the fact that the coal situation in general does not look too reassuring, the outlook for this stock is obscure.—vol. 24, p. 601.

Readers' Round Table

RESPECTFULLY SUBMITTED TO THE GOVERNORS OF THE NEW YORK STOCK EXCHANGE

Should the Activities of Brokers' Partners or Employees Be Allowed to Endanger Their Customers?

We have received an interesting communication from an injured customer of Herrick & Bennett, lately members of the New York Stock Exchange, whose failure was announced recently. Our subscriber puts the matter in a very interesting and intelligent light, and raises some issues that seem to us of supreme importance. Here is the letter:

Editor, THE MAGAZINE OF WALL STREET:

Sir: Your issue of February 19 contained an instructive and interesting article entitled "Letter to a Man About to Select a Broker." I begin to think this is a question surrounded with more difficulties than I had imagined.

For many years I had invested practically all my savings in savings banks, but after my accumulations had reached several thousand dollars I looked about for opportunities to buy conservative investment stocks. For reasons that seemed to me good at the time, I decided to select a brokerage firm in New York. My attention was called to the firm of Herrick & Bennett, of 66 Broadway, and after corresponding with them I learned that they were able to extend facilities to the small investor. I naturally proceeded to look up the standing of the firm.

First, I found that the head of the firm was a member of the New York Stock Exchange, and I had always understood that this fact in itself was of considerable value in establishing a firm's business standing. Next, I found they were well recommended by an authority that I considered trustworthy. After this I had personal correspondence with the financial editor of the *Century Magazine,* and he gave them what seemed like a clean bill of health. In fact he wrote me that he would not hesitate to place his own money in their hands.

I followed the course which your recent article recommends, namely, to correspond with them and see what class of securities they would recommend. The results were entirely satisfactory in this regard. While they extended to me every reasonable facility for buying stocks at the right time and paying in full later, they did not encourage the idea of carrying stocks on a thin margin. It was my usual practice to make purchases at intervals of a few months and gradually extinguish my obligation from my monthly savings. They always freely gave me any information I desired and several times pointed out to me the weak spots in stocks which I had intended to buy. They were always particularly prompt in answering my inquiries or acknowledging my remittances, and my personal check was inavariably accepted without question. Naturally, I ceased to worry about the standing of these people and at times I left my securities in their hands for considerable periods.

You can naturally understand that the pleasure of my holiday was sadly marred when on the morning of February 22 I read in the financial column of the Boston *Globe* that Herrick & Bennett had failed and were in the hands of receivers.

Perhaps I am not as fully informed regarding this failure as I might be, but I must say that what I have read about it would show it to have been utterly inexcusable. The only reasons I have seen were failure of customers to protect margins and speculations of their employees. I had always supposed a broker had the privilege of selling a customer out if he was lax in putting up sufficient margin; and I cannot for the life of me see what connection there should be between their employees' private speculations and the integrity of the funds of the firm. It appears that this concern was composed of five members, who supposedly were men of at least average intelligence, and if they had no knowledge of these reputed facts it would seem that they had been sleeping on their jobs.

When I sent my money to this firm I supposed I was dealing with men who understood the rudiments of common honesty, and that I was not supplying funds for a nest of gamblers. If it is a fact that their employees were able to steal their money from them, right under the eyes of five men, I should say the natural course would be to call on the bonding company who had insured them. It is, of course, unthinkable that any body of men in their senses would consider the idea of trusting the money of their customers with unbonded employees.

Finally, I will say that while the loss of my money is to me very serious, I feel even worse over the loss of my confidence in human nature.

I am always able to accept losses in the market without further thought, for that is part of the game for an investor. I would also be willing to accept my share of the suffering caused by the failure of a firm who were the victims of unavoidable disasters; but this occurrence of which I write simply fills me with anger and mortification.

But, of course, this will get me nowhere, and my only satisfaction will have to be that I have learned my lesson, albeit an expensive one, and my sensible course henceforth will be to avoid a Wall Street brokerage house as I would a pestilence. You will understand that my plan of gaining a competence, as shown in my contribution to your book, "Financial Independence at Fifty," has been rather disarranged, and that I must henceforth be numbered among the "lambs" who have been shorn in Wall Street.

Very sincerely yours,
"DISAPPOINTED."

We feel strongly the indignation and mortification suffered by "Disappointed." He has every right to feel embittered, having taken every business precaution and safeguard so that no blame whatever attaches to him.

This was not an ordinary failure, due to misfortune on the part of the firm itself. The "indiscretions of an employe" causing bankruptcy would seem quite as poor an excuse as if a prominent jeweler, after burglars had cleaned him out, were to plead failure to insure. We hope and believe that the affairs of Messrs. Herrick & Bennett will be wound up with satisfaction to all their customers. But even this would not seem to relieve the Stock Exchange of its responsibility, not only to supervise its members and their partners but to insist upon the authority of its employees being limited, and adequate bonding to the full amount of any possible loss that be caused through exceeding such authority.

It would seem relatively easy for Stock Exchange members to arrange for group insurance, or special form of insurance through one of our large indemnity companies, or even to arrange for the Governing Board to collect premiums, and pay losses occasioned by failures out of such a fund. The detail of such insurance organization would undoubtedly be formidable, but on the other hand the continued existence of Wall Street partly depends on the good-will and confidence of the public. With such insurance features back of the member firm, then indeed would a member of the New York Stock Exchange, his partners, and employees be entirely removed from the realm of suspicion and fear that such incidents as the Imbrie & Co., Toole Henry & Co., Hannevig & Co., and Herrick & Bennett failures engender.—EDITOR.

BETTER SAFE THAN SORRY

Editor, THE MAGAZINE OF WALL STREET.

Sir: I am sending herewith $7.50 for one year's extension of my subscription to THE MAGAZINE OF WALL STREET. It is needless to say how much I enjoy the magazine.

I am yielding to the oft-recurring temptation to write you of my financial situation and plans, to request some information and also any suggestions you may see fit to make.

I am no exception to the rule. I invested before learning—with the natural result. I returned from two years' active service in Europe with a little money, a good job, practically no knowledge of investments and ignorant how to acquire such knowledge. I bought stock as follows, which I still hold, well margined:

10 Midvale Steel at 52.
20 Pure Oil (OGS) at 47.
20 Kennecott Copper at 29.

Naturally I then became interested in financial doings and began to read your magazine and other financial publications.

(Continued on page 707)

Petroleum

When Will the Oil Industry Come Back?

Confusion Caused by Recent Reaction Still Exists—The "Oil Shortage" Talk—Mexico's Oilfields

By **H. L. WOOD**

THERE is no change in the situation of semi-demoralization that exists in the petroleum industry, crude oil production holding pretty steady at a rate considerably ahead of consumption demands, while refined oils show a very slack demand at prices that are decidedly weak. The propagandists are finding less and less credence in their "dope" that crude oil is scarce and that a gasoline shortage will soon seriously affect the motor industry.

Recovery from the present unsatisfactory trade conditions, it is now becoming apparent, will be somewhat slower than was anticipated. In recent talks with extensive producers, refiners and marketers of petroleum and products it develops that they are confronted with a mass psychology that is impervious to ordinary analysis, and they are sparring for time.

Positive Action Impossible

One of the clearest-headed men I know of in the petroleum industry admits that the present situation is beyond affirmative and positive action, so he is merely plugging along with as little lost motion as possible. His company is resorting to economies never before considered, trimming everything to the bone, and will, of course, weather the storm. The same tactics are being practiced by all representative petroleum corporations. This executive, having a quicker-working mind than some others and the somewhat unusual ability to marshal facts, adopted defensive plans months ago, and thus avoided the rush.

The non-buying psychology may stop quickly, but no one can foretell the week or the month. When buying begins all of the established refiners and distributers of petroleum products will be prepared to meet demands and survive whatever price fluctuations they may encounter. The consuming public, when the reverse psychology begins, will not be inconvenienced by any scarcity of oil.

The Mexican Situation

The Mexican oil situation shows considerable temperature that can develop into pleurisy just as easily as it can subside entirely. For several months, more Mexican oil has been shipped than was produced, due to an acute desire on the part of each operator to get as much oil as possible before some other operator beats him to it or else before salt water shuts off further production. The regulation, carefully enforced, providing for the immediate shutting in of any well that shows as much as 5% salt water seals up considerable flush production and complicates the situation somewhat, forcing resort to stored oil. That's one side of the triangle.

Another side is the wholly conjectural problem as to how long it will take to prospect and bring within pipe line range other dependable pools. Ordinarily eight months are required to complete and bring to market new wells in Mexico in known territory.

In unknown territory the problem is more embarrassing. Juan Casiano, Potrero del Llano, Amatlan, Tepetate, Chinampa, Los Naranjos and part of Cerro Azul—to say nothing of the Alamo pool south of Tuxpam river—all in the southern or Tuxpam district, have successively come in and gone out. These pools are in an area about 35 miles northeast and southwest and rarely more than a mile or a mile and a half in width, with dry holes or water wells partially condemning intervening territory.

In October last a big well was completed at Zacamixtle, farther southeast than the other pools, and operators turned to that to replace their declining production. Of course it was common knowledge that Zacamixtle was underlaid with the same salt ocean that was under the other pools and its future was partially discounted, with tenuous hope that some freak action of nature might come to the rescue and prolong its productivity. That hope has been dissipated by the recent receipt of a telegram stating that two wells just drilled to the oil horizon were showing 5% of salt water, necessitating shutting in. These wells are located on lots 28 and 12. That's that angle, and it's not a pleasant one to contemplate.

The third Mexican angle is the Government itself and what it may eventually do about oil land. Just now the Mexican Government, needing revenue, wants as much oil produced and shipped as possible to bring more revenue. Theoretically, its conservation policy presumes that the oil reserves shall be conserved. The Mexican oil problem seems difficult because the Mexican Government is at times inconsistent.

Nevertheless, in spite of the above three disturbing factors, shipments of oil from Mexico have steadily increased until they are declared by many oil producers to be a real menace in the United States, where crude oil is finding a limited market at half or less than it was bringing five weeks ago. At the meeting of the Mid-Continent Oil & Gas Association at Tulsa two weeks ago, with 250 representative oil producers present from Oklahoma, Kansas, Texas and Louisiana, the vote on the motion to ask Congress to lay a tariff of $1 a barrel against Mexican oil was a tie, 36 voting for and 36 voting against.

With only twelve companies producing oil in Mexico, and four of the twelve accounting for about three-fourths of the output, the largest operators cannot surely forecast the situation six months ahead. If salt water cuts present production in two before prospect work develops a new pool it is evident that a rather embarrassing situation will have arisen as to supply, demand and price. Interested and close observers admit their inability to reach a conclusion on which they can satisfactorily base their business.

Still, the situation is not so hopeless as some ultra pessimists believe. Mexico's oil-producing territory has not all been developed and other pools will be discovered after the Tuxpam and Panuco districts have declined . An analogous case is the Mid-Continent territory, where two years ago it was believed the fields had been fully developed and were in a hopeless decline. This pessimistic opinion evoked all the propaganda so fluently spread by speakers, writers and alleged petroleum "experts" to the effect that an oil famine within a year could not be averted. While the technological "experts" were at the climax of their warnings new production increased a hundred thousand barrels a day and caused pipe line buyers to reduce their runs and cut the price in half.

Mexico may recover as quickly as Oklahoma. There is a large field for Mexican fuel oil that our own light oil cannot cover as satisfactorily, and the failure of the Mexican fields would be an industrial calamity.

The Domestic Situation

From December 14 last, when pipe line buyers of crude oil in Kansas, Oklahoma, Texas and Louisiana reduced their purchase runs 30 to 50%, to February 9 the total daily production of 800,000 barrels declined less than 40,000 barrels a day; and the cutting of the price in half late in January had little effect in stopping production. It is reported—and truthfully—that 35% of drilling operations have stopped. It might be supposed that the laying off of one-third of all drilling rigs would product important results. Actually, the stoppage of drilling took place in light-well districts where 5-barrel wells would not repay the outlay; but in new pools, where wells ranging from 400 to 2,000 barrels were common, drilling has gone on without much interruption because it was profitable, and production has held fairly steady. Furthermore, the fresh oil from the new pools is much better than from the small, settled wells, where the gas pressure has gone and left less gasoline and light products for the refineries. Pipe line buyers are taking about all the oil

from the new pools and big wells because it is better and they want it, cutting the runs from the small pumpers down to minimum.

Because of the reasons enumerated, drilling activity continues where it brings the most oil and has stopped where it brings small returns.

The Mid-Continent Oil & Gas Producers' Association, the other day, formulated plans to stop drilling; the impression prevails that production is being rapidly curtailed and that before long increased consumption will absorb the surplus and quickly bring renewed activity and higher prices. This delusion will bring disappointment to those producers who expect to profit by the alleged situation. Only four weeks ago the director of one of the greatest petroleum organizations urged producers to keep drilling to meet the increasing consumption of refined oils. It is difficult for the writer to understand why such statements are given wide publicity. They are so wide of the truth. It is not necessary to be a pessimist to recognize fundamental truths of industry and commerce; nor will foolish optimism change those truths.

Depression began a year ago with the automobile industry and has gone on until every industry has felt the effects. The petroleum industry kept on the fast pulley until sixty days ago, long after other primary industries had slowed up. The jolt, perhaps, caused a severe shock, but the oil business was in excellent shape to discount it, and is discounting it. Because depression in the oil industry came so late it will not last so long, for recovery in other lines will cause quicker recovery in oil.

Foreign Oil "Bunk"

Diplomatic and international experts are writing themselves into a very depressing mental attitude because, as they allege, the United States isn't keeping up with the procession looking for oil fields in foreign countries. They're writing with invisible ink. One of these experts, the other day in New York, said United States citizens were interested in oil outside of the United States to the extent of only 18%, and threw quite a scare into his technical audience. In Mexico four-fifths of the production, present and potential, is controlled by our own nationals, and the percentage in South America is approximately the same. Great Britain controls not to exceed 10% of the oil production of North and South America, the Hollanders leading the English everywhere except in India and Persia.

The chancellors of the United States and Great Britain are engaged in controversy about Mesopotamia's oil resources, which, to date, are non-existent —an open door to a desert. Whenever a nervy American wildcatter feels the call to risk good money trying to find oil in Mesopotamia he will undoubtedly be given a permit to leave his money there—or any other foreign place that excites his wanderlust. The Secretary of State will visé a passport for any exploring citizen who wants to gamble in strange languages.

It would help a lot if our Interior Department would make it easier for its own citizens to acquire the rights to prospect for and develop oil from land owned by the United States, leaving foreign deserts and jungles for later discussion. About the most embarrassing problem that confronts the average American citizen today is how to induce the bureaus at Washington to let him have a try at developing some of the natural resources west of the defined agricultural belt and in Alaska. Foreign diplomatic conversations are easy compared with trying to find an interpreter who understands the official lingo in Washington. With Senator Fall in the cabinet perhaps the task will be simplified.

Buying and Selling Oil

Buying and selling Mexican oil has developed into a thriving industry in New York. Several hundred men are very, very busy now in this line. Orders for 10,000 barrels, 20,000 barrels and as high as 40,000 barrels a day are so common the "dope" boys are late for dinner. These buying and selling orders are on contracts running for three and five years. If the brokers were all bunched they would make the Curb look like a holiday. C. i. f., f. o. b., a. l. s., 19 plus 19-21, 12 plus, *Panuco*, *Tuxpam*, bank credits, qualify, and a lot of other signs and terms get an old-timer confused.

Commissions are demanded ranging from 1 cent a barrel to 4 cents, dependent upon the number of brokers in the deal, the price paid for the oil itself being a minor detail.

This oil, one is told, comes from the U. S. Shipping Board, from the Standard Oil Company, from individual producers in Mexico, from Mexicans and, one may easily believe, from rubber trees. Every morning these oil brokers come downtown fresh and wide awake, and then, after lunch, go into these trance-nightmares and never wake up till the next morning. Every day more oil is thus sold in New York than is produced in Mexico, the commissions keeping the brokers on Easy street. The regular producers, transporters and marketers of Mexican oil evidently are letting a lot of oil get away from them considerably below the market price, all f. o. b. buyers' tankers.

Just a By-Product

Three or four years ago a friend began working on an oil shale plant in Nevada. After spending about half a million dollars and junking three plants he now has one that is working successfully, but not regularly. He expects to specialize in paraffin wax and has a carload ready for shipment. Some months ago paraffin wax was quoted at 12 cents a pound. When he asked for quotations the other day he was offered 2½ cents a pound. The wax is still at the Nevada plant.

The oil shale business isn't making much headway nowadays, as excellent petroleum oil is draggy. The Nevada plant mentioned is the only one in the United States that has ever been successfully operated and produced anything in commercial volume. The oft-repeated statement that the shale deposits in Colorado and Utah contain 48,000,000,000 barrels of oil may be true; but getting it out is proving a German reparation puzzle.

THE MORTGAGE INVESTOR

(*Continued from page 696*)

car lines as chattel mortgages, based upon personal property in the shape of cars and locomotives. The form of mortgage which is important today is the lien on real property.

Some fine legal distinctions are drawn between chattel and real estate mortgages. The former are considered in some States as conveying absolute title to the property pledged, subject to be "defeated" by the action of the mortgagor in paying off his debt. A real estate mortgage, on the other hand, while the common law regards it as a valid transfer of title to land, which automatically becomes permanent if the debtor fails to perform his promises, has been greatly softened by the rulings of the equity courts. The right of the debtor or mortgagor to recover his property after nominal forfeit, by performing his obligations, has been recognized in most States, which have regarded the mortgage as security for a debt rather than as a transfer of title.

The tendency has been to emphasize the instrument as a pledge securing an obligation, instead of looking upon it as a means by which property might be transferred, with scant regard to the fact that the value of the property might greatly exceed the amount of the debt owed.

Corporate and Personal Mortgages

Chattel and real estate mortgages form, then, the two classes of mortgages, regarded from one viewpoint. From another viewpoint, which chiefly concerns the investor, mortgages may be corporate or personal. A corporate mortgage is a lien upon the real property of a corporation, against which bonds are usually issued under seal. While bondholders, in case of default of principal or interest, nominally have the right to seize and dispose of the mortgaged property in satisfaction of their claims, yet the complicated structure of modern finance, the fact that prior claims may exist, and that more might be lost by foreclosure than would be lost by submitting to a compromise, have often invested the corporate mortgage with technicalities far beyond what is implied in the simple nature of the mortgage itself.

Individual mortgages are as a rule far less complicated, less subject to the considerations of expediency in case of default. Mortgages on farms are perhaps the best known example of individual mortgages at the present time. Mortgages on city real estate, though often made by corporations owning city property, may for present purposes be regarded in the same category.

Both forms have been made available for investment, in ways which will be discussed in subsequent articles.

81,710 STEEL EMPLOYES BUY STOCK

Eighty-one thousand seven hundred and ten employes had subscribed to the stock offered by the United States Steel Corporation up to and including March 2. The subscriptions called for 255,308 shares of stock.

Atlantic, Gulf & West Indies S. S. Lines

The Rise and Fall of Atlantic Gulf

Factors Contributing to the Recent Decline in the Common from 144 Last November to 40 on March 1

By **W. M. MORTON**

DISAPPOINTMENTS among industrial stocks have been by no means uncommon during the last few months. In many cases their behavior has been quite clearly forecast well in advance by the price trend of the commodities which the respective companies manufactured or distributed, and at the root of the declines in the share values there have almost always been unbalanced, excessive, or immovable inventories acquired at prices now only a sad memory.

Quite different in character and likewise less easy to foresee has been the terrific smash in Atlantic, Gulf & West Indies stock. From a high point of 192⅝ in 1919, and a quotation of 144 as recently as November, there has been an almost uninterrupted decline day after day until now, on the 1st of March, the stock is dragging around 40. Charges of conspiracy to smash the quotation through bear raids and rumors of receivership have been given out from different sources. Just what the situation is may not easily be determined, but in any event the stock does not appear to have received very strong support at any time during its descent.

Before attempting to analyze the causes thereof and the outlook for the future, I may venture the suggestion, obvious though it may be, that here we have a striking example of the fact that industrial enterprises almost always afford a medium of investment more or less speculative in character and therefore unsuited for too heavy commitment in any one issue or in this class of security altogether. This is especially true where there is a tendency to branch out into new fields of endeavor.

The Company's War Profits

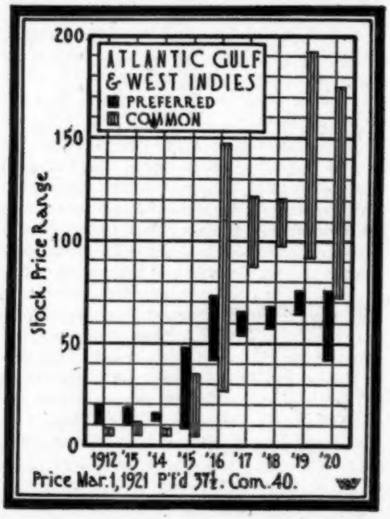
Having accumulated some very handsome profits during the war and in the year 1919 as well, Atlantic, Gulf & West Indies found itself at the end of 1919 with a net working capital of $21,851,000, or nearly $150 per share of common stock and far in excess of any normal requirements.

Several methods of utilization of these excess funds were possible. They might have been used to retire the greater part of the debt of $24,716,000 which was carried none too easily in some pre-war years. They might have served to retire the $13,743,000 preferred stock. They might have been invested in sound securities affording the company a steady return. They might have been distributed to the stockholders as a handsome special dividend. None of these courses was adopted. Oil being the bonanza industry of the day, and Mexico the field of greatest production per well, it had been decided to purchase property there and get into the oil business. A substantial investment was made during the year 1919 so that the working capital mentioned was already reduced below what it would otherwise have been.

To handle the oil the company needed tankers. It, therefore, let contracts

TABLE I.—AGWI'S WAR PROFITS.

	Earned on Common Stock	Paid	Surplus
1915	7.75%	..	7.75%
1916	49.70%	5%	44.70%
1917	59.36%	11%	48.36%
1918	13.49%	10%	3.49%
1919	32.45%	10%	22.45%
Total	162.75%	36%	126.75%



for fourteen vessels of 172,400 deadweight tons to be delivered from July 31, 1920, to May 1, 1921. The contract price was probably about $200 a ton, or around $34,000,000. This was decidedly a heavy undertaking at peak prices, but a large part of the cost, it was believed, could be recouped in a few years if the demand for oil continued at its then rate and if profitable charters could be made.

Calculations Miscarried

But calculations miscarried. Deliveries were delayed, only three ships having been received in 1920. Oil prices then began to decline and the demand to diminish so that the rest of them will come along in a dull period. It may be difficult for a while to keep the new fleet occupied. Tanker contract prices have dropped moreover to around $160 a ton (which is double the pre-war price) or less. At $100 a ton, the fleet would be worth only $17,000,000, or say half of its cost. Recent reports have stated that the company needed to borrow about $13,000,000 to complete payment for its ships. It was suggested that a marine equipment trust for some such amount might be arranged. This would amount to around $75 a ton.

Unfortunately this need for funds comes at a time when the investment market is none too robust. Several marine equipment trust issues were sold during the last few years, but they are not a widely known type of security. While temporary accommodation may be available at the banks, the ships represent capital assets not suitable as a basis for the granting of commercial credits, and some method of permanent financing would seem imperative. Even should this be arranged satisfactorily, lower valuation of the ships will wipe out a large part of the company's equity in them. Some loss in this direction would seem inevitable and irretrievable.

This does not necessarily mean that a fair profit may not be derived from their operation either as carriers of the company's own oil or under charter, but such profit is not apt to be sustained at an adequate return upon the abnormal original cost of the vessels. Much of it may be swallowed up in interest charges on equipment notes.

TABLE II.—WORKING CAPITAL.

The following table shows a tremendous increase in net working capital in proportion to the common stock outstanding. While no more recent figures are available, the balance sheet of today would probably reveal a net working deficit after allowance for commitments for capital expenditures:

	1916	1917	1918	1919
Current Assets	$8,865,949	$23,793,071	$50,932,709	$28,831,673
Current Liabilities	3,469,918	10,840,595	31,141,261	6,980,882
Net Working Capital	$5,396,031	$12,952,476	$19,791,448	$21,850,791
Per Share Common Stock	$36	$86	$122	$146

As for the possibility of receivership due to the necessity of meeting the payments of millions of dollars upon delivery of the remaining ships in the next few months, it is apparent that the company is solvent in the sense that its assets are well in excess of liabilities. But it must have funds and evidently their acquirement is not an easy task. It was reported in January that the company had sold its Liberty Bonds and United States Certificates of Indebtedness amounting at par to something over $11,000,000 according

to the 1919 report. The proceeds should cover the cost of, roughly, four ships.

The Company's Great Scope

The size of the company's undertakings are approximated in the following summary. It will be noted that the total is far in excess of the valuation of the entire fleet of cargo vessels which was carried at $45,801,000 in 1919:

Cost of Tankers	$34,000,000
Properties in Mexico	7,500,000
Properties in Colombia	2,500,000
Properties in France	12,000,000
Properties in England	4,000,000
	$60,000,000

At a price of about 40 each for the $13,742,900 preferred and $14,963,400 common stock, making a total market value of only $11,500,000, not only the loss of all equity in the tankers and very poor earning power for the cargo ships are discounted, but also practical absence of value in the securities of the Mexican oil subsidiary.

Shipments from that company's wells to the coast amounted to slightly over 1,000,000 barrels each month beginning in August, 1920, this being the limit imposed by the capacity of the pipe line. Completion of a second line of similar capacity early this year made possible doubling of the rate of shipments and production has been running around 90,000 barrels a day.

The appearance of salt water in certain Mexican wells has led to rumors that the wells of this company were so affected. This has been denied, but the tremendous production per well is indicative of limited life. The maintenance of earnings at a good level requires, therefore, the replacement of exhausted wells by new production. If not in Mexico, this may be attained in the Colombia lands of 1,000,000 acres. Of course, the outlook in this direction is by no means certain, but there is at least a speculative chance of good fortune.

Aside from the question of oil production, we have the adverse trend of market prices. In spite of predictions by accredited authorities on oil that the growth of demand made any marked decline in oil prices impossible, we have found that petroleum deflates much the same as sugar, leather, cotton and the rest of the important basic products. It has been demonstrated in previous periods of depression that those concerns engaged solely in production of the crude do not fare as well as organizations with refinery and distributing facilities. Atlantic, Gulf & West Indies has been merely a producer and as such faces a reduction of profits from the level promised by the insistent demand and high prices of a year ago for fuel oil and crude. The company has contracts with the Shipping Board for 1921 of 15,000,000 barrels in 1921 at $1.25 a barrel, but the tying up of scores of Shipping Board vessels for lack of cargoes may reduce the amount of oil taken. Among the idle Shipping Board vessels are some tankers.

Another outlet for Atlantic, Gulf & West Indies oil was planned in the construction of a pipe line from Havre to Paris at a cost of $10,000,000 or $12,000,000. The abandonment of this project, for the present at least, marks another phase of the company's reverses. With coal selling at $30 a ton, or some other ridiculous figure, in France, the opportunity for transporting fuel oil by pipe line to Paris for industrial use looked attractive. Now that economic forces have removed coal from its temporary niche among the precious minerals, that prospect has been materially altered. At least this is believed to explain the cession of construction.

Outlook of the Securities

The original business of Atlantic, Gulf & West Indies, that of coastwise and West Indies shipping, brought in sufficient income from 1910 to 1914, inclusive, to pay bond interest and preferred dividends, though no preferred dividends were disbursed until 1916. The current quotation of under 40 for the 5% preferred stock is in line with not only a total loss on the new undertakings, but with inability to do more than equal pre-war shipping profits. This shrinkage of the value of the preferred to a point slightly below the common is one of the suprising factors of the situation, for while it is non-cumulative as to dividends, it is preferred as to assets, and should receive preferential treatment were a reorganization to become necessary. At about 39 the return is 13%. In view of the apparent improbability of a continuation of the 10% dividend on the common, a switch from the common to the preferred would seem advisable.

At the dividend meeting for the preferred stock held March 3, it was decided to postpone action until May, at which time the question of the semi-annual dividend on the common also comes up. The statement was made after the meeting that "it is hoped and believed that this is only a delay in the payment of these dividends." With the declaration of the preferred dividend in doubt, the passing of that on the common would seem a foregone conclusion.

In pre-war years when neither issue paid dividends, the price of the preferred almost always approximated twice that of the common. Should the company's prospects again take on a brighter hue a switch back to the common might then be made to advantage. Those whose affairs do not justify their holding speculative stocks would perhaps do well to sell out at even 40. The others—those who can afford it, that is—have an inducement to hold on in the chance that handsome profits in oil may some day be realized by the company and present paper losses retrieved thereby.

To those who may contemplate the purchase of Atlantic, Gulf & West Indies the writer can only suggest the inadvisability of buying into trouble either present, probable, or, so far as one can foresee, at all possible.

The whole affair appears a sad commentary upon a policy of expansion beyond the limits provided for by funds on hand or obtainable through assured loans, and more especially upon over-expansion at tremendously inflated price levels. At the same time, it is only fair to note that Atlantic & Gulf is not the only concern which misjudged the potentialities of its market.—vol. 26, p. 936.

READERS' ROUND TABLE

(Continued from page 703)

I have also read a number of books published by you.

My later investments were as follows:
$500 Liberty 3rd 4¼ at 92.
500 Jap. 1st series 4½, 1925, at 76.
500 St. L. & S. F. p. l. 4s at 59.

I am unmarried, age 28, have about $200 a month to invest, with good prospects of keeping my job and getting a gradual and substantial increase in salary. I have now about $450 to invest and am considering among other things the following:

$500 Liberty 4th 4¼, which I may leave with my broker as margin, to buy 10 Anaconda.
$500 Jap. 4s of 1931.
$500 Chile Copper 6s of 1931.
$500 more St. L. & S. F. prior lien 4s (to have $1,000 and get a registered bond) or perhaps some other second grade rail bond—Peoria & Eastern Cons. 4s 1940 or Rio Grande Western Cons 4s 1949. At this time am I justified in buying bonds of this type?
$500 General Electric 5s, 1952.

I have not yet decided whether to keep my present stocks or sell them on the next recovery and buy bonds. The former appeals to me more.

In buying bonds from time to time, is it preferable to buy through a broker or a regular bond house?

Is the foundation of "my bridge" going to be sufficiently solid?—R. W. B.

Our B. Y. F. I. department was much interested in your letter and particularly pleased to learn that the MAGAZINE and its book publications have turned your mind toward the element of safety in investments.

We can note an improvement in your security selections since you have studied the MAGAZINE. In the first entrance into the investment field you chose speculative stocks. For a man with your capital and income this was unwise. You should have confined yourself to preferred stocks or bonds.

Your letter indicates that you realize that the first span of your bridge is lodged on shifting sands instead of bed rock. We do not advise you to sell these stocks at their present price, but would wait until they reach your cost price. We suggest you then put in a better foundation; either preferred stocks or bonds, around the same price. We suggest, if the prices are relatively the same when you make the switch, St. Louis & Southwestern pfd for the Kennecott Copper and Denver & Rio Grande cons. 4s for your Midvale Steel. You might keep your Pure Oil as a sort of concession to your speculative propensities.

In figuring the carrying costs on margined stocks remember that they run, at the present time, from 10% to 12% per annum, and that it would take quite an advance in price to cover this charge.

The foundation of your second pier is well selected with the possible exception

(Continued on page 708)

To Our Subscribers

F. A. TRAVIS & BRO., 50 Broadway, New York City, have sent a circular through the mails devoted to an enthusiastic description of a new concern known as the "Eclipse Phonograph Corporation of Delaware."

With the circular, F. A. Travis & Bro. are also sending a form letter, the first paragraph of which reads exactly as follows:

"Your name has been given us by Mr. J. J. Koen (formerly with the Magazine of Wall Street) as one who would be interested in a legitimate proposition having real merit. Mr. Koen endorses this proposition unqualifiedly."

The casual reader of this paragraph could get only one impression from it (whether or not it was intended to give that impression). That is, that Mr. J. J. Koen must, at some time, have held an important position on the Staff of THE MAGAZINE OF WALL STREET.

This being so, it would follow in the casual reader's mind that Mr. J. J. Koen's sweeping endorsement of the "Eclipse" proposition must be a sort of reflection of our own standards.

Under the circumstances, we are bound to inform our readers that Mr. J. J. Koen has never enjoyed such a position with us as the one described. He was once a salesman for THE MAGAZINE OF WALL STREET. Some months ago we published two articles on Building Costs, written by him in conformity with our instructions and almost wholly re-written here before being published.

These facts alone permit his being referred to as "formerly with the Magazine of Wall Street." They do not warrant the deduction that we tacitly approve—or would tacitly approve—his unqualified endorsement of the Eclipse company, or of any other company.

Another Aspect

There is another unfortunate aspect of this case which we cannot afford to ignore. That is the fact that some of our subscribers are receiving the "Eclipse" literature.

One does not have to be a mind-reader to perceive the impression this coincident will give. The average subscriber's first thought will be: "They must have obtained my name and address from the MAGAZINE." It will not occur to him that this information might have been obtained in any other way.

For this reason alone we are compelled to state (1) that the list of persons subscribing to THE MAGAZINE OF WALL STREET is, and always has been, accessible only to those in whom we have felt we could place complete confidence; and that (2) if, by any possible chance, the names on this list have been divulged and are being circularized in connection with the promotion of any undertaking other than the financial services directly allied with the MAGAZINE, the same is without our knowledge or consent and is a breach of trust.

The foregoing is no accusation, express or implied, of any person or persons here mentioned or thought of. It is merely a statement we are forced to make because of the peculiar circumstances surrounding this case.

The Offering Itself

So far as the "Eclipse Phonograph Corporation" itself is concerned, we cannot find much assurance of its future in the material presented in the Travis circular. The company may be a tremendous success. It may not.

According to the Travis circular, "Eclipse" is to manufacture a machine whose chief aim to greatness will be a "self-starting electric motor." To be sure, one must acknowledge the genius capable of evolving an electric motor that would start without cranking; but even this astonishing departure will scarcely compensate for the fact (1) that the company has still to demonstrate its earning power under actual operating conditions; (2) that its products will have to compete with the products of other large corporations; and that (3) its stock is being marketed, assumedly with official sanction, in a style that has all the ear-marks of a get-rich-quick promotion—with intimations of huge profits, that is, without frank statements (always judging by the Travis circular) as to actual assets, actual liabilities, location and capacity of plant, etc., etc.

How We Learned of It

Our attention was originally called to this proposition by a good friend of ours, a regular reader of the MAGAZINE. In a letter to us, this gentleman says:

"I am sending you letter and circular recently received from F. A. Travis & Co. which, while quite similar to the mass of wild-cat literature with which one is continually deluged, is the first of its kind that has come to my attention where an attempt has been made to use THE MAGAZINE OF WALL STREET even as an indirect reference.

"This appealed to me as more humorous than otherwise, as I do not believe that any real student of the MAGAZINE will be influenced by so thin a ruse.

"As one engaged in the field of electrical study, I am of the opinion that a phonograph operating on a dry battery is as unlikely to be a success as this proposition is to pay the promised 50% on its first order of machines."

We agree with this gentleman that "real students" of the MAGAZINE have learned to look before they leap in matters of this sort. However, it must be remembered that we are constantly adding new readers—young men and women—who will have to be with us a while longer before they can be numbered among our "real students." These people may not yet have learned the importance of caution in investing funds.

It is out of regard for their welfare that we publish this statement. We want no misunderstandings where our name has been used.

IN a letter addressed to Mr. Wyckoff, dated March 4, 1921, Mr. Koen says:

"There has been only one proposition to which I have referred a very few of these people. I personally made a thorough investigation of the above proposition and you might find it worth while to do so. In the future I will take no such action without first submitting the matter for your approval."

Mr. Wyckoff's reply follows:

"I am in receipt of your letter of March 4 which admits that you did take up with some of our subscribers the proposition to which I referred.

"You say that in the future you will take no such action without first submitting the matter for my approval. Please do not submit any matters to me. You have no right to use those names, and I do not care to look at any proposition which you desire to present to any of our people.

"Will you kindly return to me all lists of their names which you now have in your possession? When I receive these, I shall know that you realize you had no right to approach these people and that you will not do so again."

READERS' ROUND TABLE

(*Continued from page 707*)

of the Japanese 4½s. This bond is considered safe, but why go to Japan when you have more attractive bargains at home?

Bethlehem Steel 5s would give you better returns and their status would not be under the influence of so many uncertainties as the obligations of foreign governments.

You mix too much sand in with the cement for your proposed third pier. The Liberty Bond idea is good, and the plan of hypothecation is all right. But keep out of coppers. Remember that you are a small investor and, therefore, that speculative commitments are not for you as yet. Wait until you are financially stronger and have substantial surplus funds.

Instead of more Japanese bonds, or the Chile Copper, get an additional St. L. & S. F. p. l. 4. Diversification is the strongest safeguard for the beginner. Then consider Peoria & Eastern 1st 4s; Atlantic Coast Line L. & N. 4s; International Motor Truck 1st pfd; General Motors 6% debentures; and American Steel Foundry pfd.

As to relative advantages of buying through a broker or through a bond house, there is little difference. Why not transact the business through your bank?

We are glad to know you enjoy the MAGAZINE and we, in turn, take pleasure in receiving such letters as yours. Let us hear from you from time to time as to how your bridge is progressing.—Editor.

ACKNOWLEDGMENT

In our issue of March 5, on page 633, appeared a map of the Sinclair Oil Company's pipe line system in the Oklahoma oil fields. Credit for getting up this map should have been given to *National Petroleum News*, but was inadvertently omitted.

Why the Action of the Market Is a Better Guide Than the News or the Fundamentals

An Address at Finance Forum, New York City—Reprinted by Request

By **RICHARD D. WYCKOFF**

SPECULATORS in the stock market may be divided into three classes:

First. Those who operate chiefly on what they hear.

Second. Those who work on facts.

Third. Those who base their commitments on supply and demand.

Class One largely makes up the great percentage of unsuccessful speculators. These people come down to Wall Street hoping to get something for nothing; they are hungry for tips; they listen to every rumor; and if there is one thing more sought for than any other by this class of traders, it is "inside information."

So far as the news is concerned, there are two kinds: known and unknown.

Known news is what we find on news slips, news tickers, newspapers and the usual run of market letters.

Known news is what has happened and has been told. It becomes public property the moment it is printed in Wall Street. News known to everybody is, except in rare cases, of little use to anybody. Yet the great public thirsts for news, talks news and trades on news.

Unknown news consists of important facts in possession of a few insiders. It is the possession of these facts which distinguishes the insider from the public.

The insider works with an incalculable advantage. Reports of earnings, probability of reduced or increased dividends, etc., must be known to some one person, or a few, before public announcement can be made. This may take place a few minutes, hours, days or weeks later, according to market conditions and the position of the insiders. Meantime those who trade on the news which is known are simply playing into the insider's hands.

The insider does what probably you would do if you were in his place. During the interval between his receiving and announcing the news, he telephones his broker and gives his order. This takes but a moment. If he is a big enough factor, some manipulation may accompany his buying or selling; but whether his operations are large or small, there is usually a coterie of associates who act with him or upon his information.

Each of the persons composing this group has his own broker, and each broker his own clientele. It is customary for a broker who sees inside orders coming through, to advise certain of his clients in accordance therewith, without necessarily disclosing the actual source. For example: The broker will say, "Now, Jones, I want you to buy some of this stock. I can't tell you what I know, but there is excellent buying going on, and if you will take on a little, I believe you will make some money." Thus unknown news becomes the power behind a movement which may attain large proportions before public announcement is made—when the unknown news becomes known news.

However desirable this unknown news or "inside information" may be, getting it from its original sources is beyond the reach of the average trader. And even if he had "underground" connections with every important source of information in the Street, there would be no certainty that he could always profit thereby. Insiders are often completely surprised and suffer heavy losses on account of an adverse trend of the market, some other and more effective news, an accident or the operations of opposing speculative pools and large individual traders.

One clique may possess a bit of knowledge which, in their opinion, will produce a certain market effect; another group may command greater resources, swing larger lots, diffuse more effective "information." Group One may, therefore, find its efforts futile.

How should we know whom to follow were it possible for us to command information from several of the best sources? Large operators themselves do not know what unexpected circumstance may force them to alter their plans. Assuming that you were posted when to buy, you might not be told when to sell. With his own hundreds of thousands of shares involved, is the insider likely to tell you, so as to save you a loss on your poor little ten shares, one hundred or five hundred shares, particularly when such telling may spread the danger signal and increase his own loss?

Then we must consider the "sentiment" of the Street, which is frequently more powerful than any group of operators. In former years, manipulators able to swing fifty or a hundred thousand shares could practically dominate the market; but in these days of hundred million dollar issues and billion dollar capitalizations, everybody is stronger than anybody. At such times "inside information" is likely to ruin one who follows it in the face of overwhelming buying or selling by the public. In other words, insiders are not invariably correct. It is an old saying that "inside information" will break any one.

The second class of speculators operate on facts; viz., earnings, intrinsic values, the crops, the money situation and other fundamental statistics. They aim to buy when prices are comparatively low, selecting stocks whereon dividends have been consistent and earnings stable over a long period of years.

These people usually take an investment position by either carrying their securities on a large margin or paying for them in full. Comparatively few work on the short side, although the number is increasing yearly. In so far as their purchases are made on the basis of intrinsic values, they are more successful than those in Class One.

If the financial situation could be accurately diagnosed and forecasted by means of fundamentals, it would seem that there should be some harmony of opinion on the part of those who work with this material. But these wide differences apparently prove that some of these gentlemen are wrong either in their methods, their premises or in their deductions.

Fundamentals are all right in their way, but they are usually very much in the way of the active trader or even one who operates for the intermediate swings in the market.

In the Spring of 1904, the principal factors showed a heavy balance on the bull side. It was possible to buy U. S. Steel common below 9; Union Pacific below 90, and Reading around 45. None of these stocks have been there since. Fundamentals worked in this case, but they will not always work, and any one who makes a business of forecasting the stock market by their aid will find himself wrong at least as often as he is right.

Following are some of the factors which cannot be analyzed or anticipated by means of a study of railroad earnings, crop conditions, the money situation and similar elements: In the first place, fundamentals do not take into account the vitally important factor—manipulation. It is a fact that large operators are able to work the market up and down within a considerable range, regardless of a threatening or promising financial outlook. Insiders also have means of knowing in advance when certain unsatisfactory conditions are to pass away and their operations are conducted accordingly.

No amount of study in the field of statistics will give one the slightest hint as to Supreme Court decisions, Government prosecutions, stock market object lessons, big shake-outs, etc., all of which can take place without fundamentals batting an eye.

You can have all your fundamentals right and draw wrong conclusions; or your conclusions may be correct but one fundamental which you overlook may upset all your calculations.

Then, there are unknown factors which nobody can analyze. These are continually cropping up and nullifying all those which are known.

We have exhibitions of what political uncertainty will do to the stock market. This is something which no statistician can figure out and no forecaster predict. Such dangers sometimes gather and break in a day or a week, while all other elements remain unchanged.

Manipulation of public sentiment frequently enters and is also more or less incalculable. A very impressive case of this kind occurred in February, 1909, when, on the announcement of an "open market in steel," U. S. Steel common broke from about 59 to 41¼ amid a tremendous manipulative campaign which shook out the outsider and put the insider in right for the big advance to 94⅞.

Interstate Commerce Commission rul-

ings, Supreme Court decisions and Government prosecutions do not require a financier or a statistician, but a lawyer, to extract their true meaning.

Market letters of brokerage houses are practically all based on an analysis of known stock market factors. Also newspaper financial articles and "reviews and outlooks."

One need spend but a few months in Wall Street to find that the movements of the market cannot consistently be reconciled to the news, statistics, earnings, outlook or such other considerations as largely influence the general public. Almost every day we see the market advance on bad news or break in spite of favorable developments.

It is impossible to analyze the effect of a certain situation upon the minds of a million people who are interested in the market, either as investors or speculators.

Wall Street is a great "hopper," into which, all day long there pours an unceasing stream of news, statistics, decisions, railroad and industrial reports, Government estimates, court rulings, corporation announcements, and last, but not least, rumors and tips.

None of these things in themselves move a single stock so much as an eighth of a point. In order to make this clear, we will suppose that some company of great financial strength, such as Union Pacific, without any warning whatever, be placed in a receiver's hands; if the last sale of Union Pacific were 120, the stock would not decline even to 119⅞ unless somebody sold some of it.

It is not the news, nor the facts, nor the statistics, nor the announcements, that produce the fluctuations, but the effect of all these things on the minds of men.

Every order which is executed on the New York Stock Exchange has back of it a reason or a hope or a fear, and all this news and all these facts and rumors and tips which are poured into the "financial hopper" have a certain influence on the minds of traders and investors, causing them (directly or indirectly) to buy or sell. It is, therefore, not the day's or the week's developments, but their effect on the minds of individuals which is the underlying cause of the movements in the market.

There is also what we might designate as a "secondary effect"; that is, a certain wave of buying indicated on the tape, encourages others to go in on the long side. There is nothing more suggestive or irresistible than the simple action of a stock while undergoing a sharp advance. People say, "This stock is going up. Let's buy some of it." This produces what I have called "secondary effect." People like to follow a crowd.

Then, we must consider the technical position, the attitude of those who manipulate the market and the character of the manipulation. If large interests are holding the market steady at a certain level, their supporting orders will prevent raiding by professionals on the floor and will encourage those who have long stocks to hold them. On the other hand, if this most important class of operators be indifferent to a two, three or five point decline, they lower their supporting orders or reduce the quantities in their scale orders. At such times, bad news, or a weak technical position, encourages floor traders to hammer the market, and this in turn produces selling by outsiders.

Very often the market is left to take care of itself. At such points large operators wish to observe just what it will do without manipulation. The market then demonstrates whether it is technically weak or strong, and gives them a better line on the position of the public.

We frequently notice squibs in the papers to the effect that "the advance in Reading was due to the company's favorable monthly report," or some expression of that kind. One can readily see how impossible it would be for the reporter who writes this paragraph to ascertain just why those who bought and sold during the day, did so. In order to make such a statement with any degree of accuracy, it would be necessary to communicate with each buyer and seller for the day, extract from him the reason why he made the trade and strike a balance. These buyers and sellers may be scattered all over the earth, dealing in one, ten, fifty or one thousand share lots. It is, thereford, absurd to place any reliance on statements that this or that was the cause of the advance or the decline. This not only emphasizes the necessity of taking newspaper reports with a grain of salt, but proves that no one actually knows what produces these small advances and declines, although there are a great many people who guess about it.

We, therefore, see that a vital market influence is the mental attitude of buyers and sellers. Also that this mental attitude is an absolutely unknown quantity. J. F. Morgan himself does not know how the Street will take a certain announcement, or what the effect of his buying and selling will be.

The Morgan and Rockefeller commitments formerly ran into the hundred thousands of shares. They swung enormous lines. But none of these great speculative factors, nor all of them combined, were big enough to withstand, beyond certain limits, enormous buying or selling by the speculative public and investors. If these big operators combined swung two million shares, this would represent only $200,000,000 worth of stock, and $200,000,000 nowadays is a very small quantity.

There were certain stages in the great advances and declines where even the late Mr. Morgan knew very well that even were he to buy half a million shares, he might check the decline, but finally he would be swept off his feet. When he did step in to turn the market, it was usually because he knew of certain developments which would change the mental attitude of the public.

But if in one stock market session Mr. Morgan had bought 500,000 shares, and the public 50,000 shares on balance, and other large speculators sold 600,000 shares, the market would decline in spite of the Morgan buying.

Supply and demand is the governing factor in the stock market and is the best indicator of its future course.

We all know that this same principle governs all branches of trade, whether manufacturing, railroading or dealing in any of the thousands of different commercial lines.

Let us say that the last sale of Steel was 85, and that the actual market is "85 bid, offered at 85⅛;" then assume that 10,000 shares are for sale at 85⅛. Any one can buy these 10,000 shares at ⅛, then bid ⅛, and the bid price will have been raised by just so much. But so long as the 10,000 shares remain unabsorbed at ⅛, the market will not advance above that level. It is merely a question of Supply and Demand.

Some of the greatest floor traders have no opinion on the market; they simply stand in a certain crowd on the floor and gauge this momentary Supply and Demand. If 5,000 shares of a certain stock are wanted at ½, and only 500 offered at ⅝, they will take the 500 shares at ⅝, bid ¾ for more and offer their 500 at ⅞. This being still the only 500 shares offered, some one else may purchase it, making a sale at ⅞—a net advance of ⅜. This is what happens on the floor of the Stock Exchange and is faithfully recorded on the ticker tape—the best indicator of this Supply and Demand.

The man on the floor does not know the actual Supply and Demand; although there may be only 500 shares offered openly, the crowd around the post may contain several brokers with orders to sell from 100 to 1,000 shares each when a certain price is bid, and with instructions not to offer.

No one is able to predict what the supply and demand will be ten seconds, ten minutes, or ten days ahead. No one knows what will, in the future, induce others to buy and sell. This is why no one can predict the market with one hundred per cent. accuracy—not even those who are recognized market manipulators.

Now it makes no difference whether or not the buying and selling is manipulative; when we see on the tape 100 shares of Steel at 88½, 3,000 shares at ⅝, and 5,000 shares at ¾, we know that the buying at the moment is more powerful than the selling, and we do not care whether the buyers actually want all this stock or whether they are buying 10,000 shares through one broker and selling 8,000 shares through others, to give the Street the impression that large buying is in progress. The point is that all this buying and selling, from Morgan's big lots down to the one share of the investor or the ten shares of the odd-lot trader, is reflected on the tape, and every transaction has its part in forming the balance of Supply and Demand, or support and pressure, just as every grain of sugar plays a part in making up the pound.

The greatest supply usually comes from outsiders close to the bottom of the breaks and in panics. The supply from insiders usually appears on the top of the small rises and at the finish of booms. The demand is just the reverse.

In between the extremes of all the swings the same principle holds, and as we get down to the minor fluctuations, represented by the movements of one to five points, the professional floor trader becomes an increasingly important factor. This element follows the line of least resistance and works against the outsider more than any other group of operators. In an ordinary trader's market, the professional usually takes the short side on bulges and the long side on weak spots. As the outsider does the opposite, the result is obvious. There are floor traders

(Continued on page 719)

Trade Tendencies

Prospects of Leading Industries as Seen by Our Trade Observer

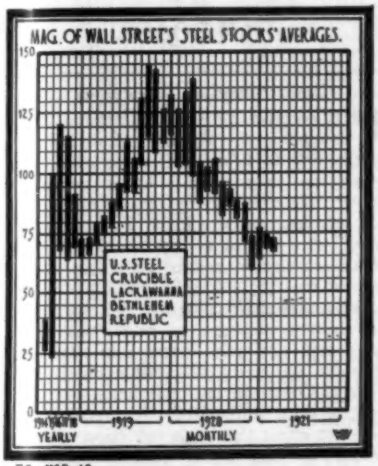
As the general tendency in a given trade is but one of the many factors affecting the price of securities representing that industry, the reader should not regard these trade tendencies alone as th basis for investment commitments, but merely as one of many factors to be considered before ariving at a conclusion.

STEEL

Stagnant Conditions Continue

THE unfavorable conditions operating in the steel trade become more pronounced each week. Practically all the independents are meeting the new competitive conditions. Price-cutting is not uncommon where fair tonnages can thus be secured. The general feeling is that the price-level will be lower in the near future.

No improvement is noted in the iron market. The output of iron is on the



TO MAR. 10.

decline and it is understood that no more than 20% of the country's blast furnaces are now operating. It would be dangerous to assume that the buyer will have his way indefinitely. Stocks on hand are getting low and the drastic rate of curtailment has greatly strengthened the statistical position of this commodity. However, present conditions are such that the consuming interests do not feel themselves in position to add to their present rate of orders and it is therefore unlikely that any marked change in demand for pig iron will take place in the immediate future. Sooner or later, however, the statistical position of the commodity is bound to have its effect, and from then on a definite turn for the better should be expected.

The demand for black and blue annealed sheets has had a tendency recently to broaden. This is due more particularly to the improvement noted in automobile manufacturing. Prices, however, have not advanced and the independents still quote their price list some $3-$8 under the Steel Corporation basis.

Tin-plate producers are increasing operations somewhat, with no material changes in price. This market has been more steady than others in recent weeks.

While it is true that the demand for special steel products, such as the above, has shown an improving tendency, activity in the rank and file of steel products is not so good. Railroads and car builders are not supporting the market at present on account of the poor railroad situation, and it is not considered likely that there will be any change for some weeks. The machine and tool makers are practically out of the market and operations with regard to these interests are very small.

Stocks in the hands of wholesale distributors are getting smaller. The jobbers have been gradually disposing of their inventories and have not repurchased to any extent. Under these conditions, it is evident that sooner or later there must be a turn for the better in the domestic steel market.

The one big obstacle to a revival in demand for steel is the uncertainty which

THE TREND

STEEL—Independents operating at 20% capacity and U. S. Steel Corporation at about 60%. Pig iron production declining steadily. Prices of pig iron very weak. Steel consumption at low ebb. No improvement expected in the near future.

METALS—Copper prices decline to new low. Domestic demand at low point. Exports have picked up. Lead firmer but zinc and tin are still unsettled.

OIL—Crude oil production declining slightly. Prices have not been cut again. Mid-continent situation improving. Refined products weaker and demand not up to expectations. Improvement due shortly on account of the approaching open season.

RUBBER—Market is stagnant. Prices hold to about the lowest levels. Tire manufacturing increasing and the trend is up.

PAPER—Uncertainty prevails. Newsprint spot market lowest in a year. Demand for paper products is poor and the outlook is not encouraging for the immediate future.

SILVER—Prices decline on account of Far East situation. Metal very cheap at these levels and higher prices are looked for.

RAILROADS.—Labor troubles increasing. Earnings decline. Situation highly confused and the outlook is discouraging for the next few months.

COTTON—Prices rally a little on short-covering. Foreign news unfavorable, however, and trend continues downward.

WHEAT—Stronger tone but the existence of large country held stocks encourages selling of futures on rallies. The outlook is for lower prices.

SUMMARY—Situation is very irregular. Some commodities are going down while others are either going up or holding firm. Some plants reopening, while others are shutting down. Business operations are marked by policy of great caution. The drift, however, seems to be toward very gradual stabilization.

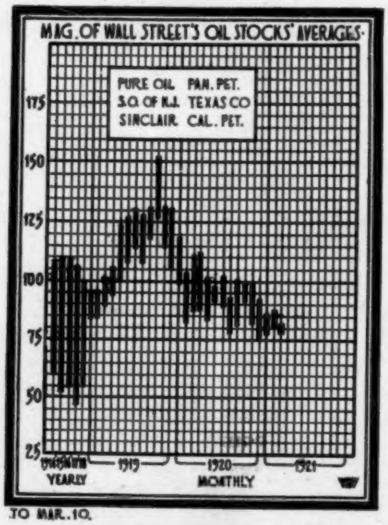
prevails with regard to future Steel Corporation prices. Thus far the big company has adhered to its price schedule, at the same time that the independents have cut under this basis. It is obvious that the independents are operating at a disadvantage. The same may be said of the Steel Corporation, as some of its business has been attracted away to the lower-priced independents. In this way, both independents and Steel Corporation are at a disadvantage. It is a question whether this condition can continue indefinitely. It is believed that the big company will see the handwriting on the wall and cut its prices. When this has been accomplished, the industry will be able to go ahead on a satisfactory basis.

OIL

Conditions Unchanged

THERE has been comparatively little change in any branch of the refined petroleum market of late. Interests connected with this industry are still hampered by uncertain trade conditions. Gasoline and kerosene are dull and buying is on a restricted basis, and that intended only for immediate requirements.

Exports are declining somewhat. Even the reduction of one cent in the export price of refined petroleum has not attracted foreign buyers into the market to an extent that would result in large business. This is due to the recent unsettlement in foreign exchange caused by the collapse of the German reparations negotiations. It is not believed that a marked change will occur in the export branch of the oil industry for a month or so at least.



TO MAR. 10.

Considerable improvement is noted with regard to the crude oil situation. This is particularly true of the mid-Continent market, where selling pressure has been removed for the time being. The price outlook with regard to mid-Continent is uncertain. A further decline is prophesied by some, whereas others believe that prices will be advanced. It is a little too early to say as to this, but it is apparent that if the improvement in mid-Continent continues the incentive for a price reduction will have disappeared.

Fuel oil demand has been improving very recently and the tone of this market is stronger than for a considerable period. The improving fuel oil situation has saved Texas interests from considerable embarrassment, as this is the only petroleum product in which they are interested which is moving in fair quantity.

Production of crude oil has been declining, but not to a marked degree. A definite trend, however, is indicated and it is probable that production will show a heavier drop in time.

It cannot be said that conditions in the petroleum industry have changed sufficiently to hold out the hope of improvement in the immediate future. Prices for refined petroleum are still too high and it is likely that there will be some further cuts in the price of this commodity. The crude oil situation with regard to price is different, however. Prices on the average have been cut about 50% since the beginning of the year, and it is doubtful whether there will be many other important price reductions.

RAILROADS

Labor Situation Threatening

THE receivership for the Atlanta, Birmingham & Atlantic Railroad is threatening to bring the entire matter of wages up to a head. As is generally known, the receivership was a direct result of the refusal of the Federal Railroad Labor Board to approve the request of the carrier to reduce its wages. The request was for a wage reduction of 50%.

When the Labor Board did not offer the desired measure of relief, the company was promptly forced into receivership by its creditors. Subsequently the Federal Court, having jurisdiction over the receivership, authorized the receiver to put into effect the wage reduction of 50% which had been urged before the Federal Labor Board.

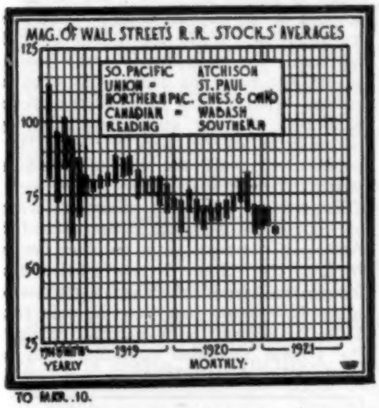
The order applied equally to all employees, from officers down to section hands. The manual workers, however, refused to acknowledge the validity of the court's order, and subsequently a strike was called. This strike has a very threatening aspect and it bids fair to involve every railroad in the South with which the Atlanta, Birmingham & Atlantic has connections.

Probably no phase of the railroad situation is so involved as the matter of wages. It cannot be questioned that many carriers, who are unable to earn their operating expenses, under present conditions, will be forced to follow the method of procedure of the above-mentioned Southern road, if they expect to gain the necessary relief.

The question, however, is whether labor will take kindly to the wage cuts which the courts will probably authorize, or which the carriers will attempt to put into effect regardless of the provisions of the Railway Transportation Act. Judging by the action of the workers on the Atlanta, Birmingham & Atlantic, there is bound to be some very strenuous opposition on the part of railroad labor and its spokesmen.

The situation is not a happy one. On the one hand, many roads are desperately in need of cutting the wages of their help. On the other hand, the spokesmen of railroad labor can justifiably point to the fact that living costs have not declined sufficiently to enable the workers to stand the brunt of reduced wages. How this great problem will be solved is impossible to say at present, but it cannot be gainsaid that the situation has ominous possibilities. A railroad strike at this stage would be a calamity of the first magnitude; and that is the situation toward which the carriers will drift unless a way out is found in short order, or unless living costs come down more rapidly than in the past.

In the meantime, the carriers are consistently following out a policy of reducing labor to the minimum. Thousands of men are being let go regularly. To that extent, of course, there is some saving so far as the payrolls are concerned.



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For the first time since the middle of January, freight car loading showed an increase. This is due to greater crop movements, the farmers commencing to sell their products more freely.

The number of idle cars is very large. By the beginning of March, surplus cars reached a figure never before attained, except immediately following the armistice. There are now about 425,000 idle cars. This compares with a shortage of several hundred thousand during the height of 1920 activities.

RUBBER

Still Dragging Bottom

DEVELOPMENTS in the raw rubber market are of a singularly uninteresting character. The general features are about the same which have prevailed during the past two or three months. Price fluctuations are comparatively small. Buying can hardly be called aggressive. On the other hand, sellers are not disposed to offer much stock at prevailing prices.

Up-river fine and coarse and island fine Paras are becoming scarce owing to declining shipments, which, in turn, is due to the low price level. Buyers are becoming more interested in this market and will probably have to extend their commitments in order to replenish their falling stocks.

A revival is shortly due in the demand for rubber on account of the improvement in the tire-manufacturing industry. Considering that rubber is selling not only below its highest price during war-times, but actually 65% below 1914 prices, a recovery in price would not be surprising. This, however, could not be extensive on account of the very large world stocks.

More tire companies have been resuming operations on account of the improving demand. Sales of tires are generally showing some improvement and the approaching open season should see this buying reach very considerable proportions.

Offsetting this favorable influence, however, is the fact that many tire companies are still loaded up with high-priced goods. Financial difficulties are common and it will probably take the balance of the year for this industry to get on a truly paying basis.

Tires are likely to be cheaper. Manufacturers will probably take advantage of the improved demand, due during the

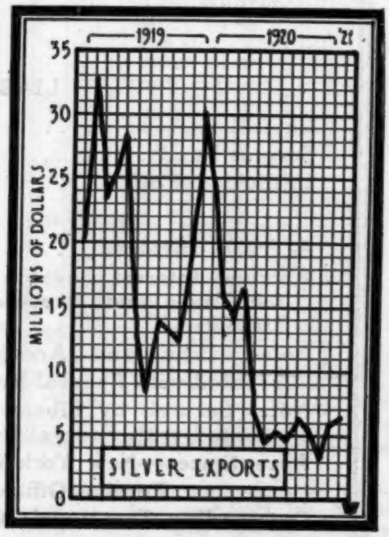
Spring and Summer months, and move as much of their stocks as possible. Manufacturing activity should increase, but a policy of caution will probably mark the operations of most makers. In the meantime, those more fortunately situated than others with regard to liquid resources, are in a position to take advantage of the low price of rubber, cotton and other constituent elements entering tire manufacturing. But the benefits arising from this action will probably not reveal themselves completely until considerable more progress has been made with regard to the disposition of stocks which are on hand at the present time.

SILVER

Sharp Decline Takes Place

SILVER has been declining since the beginning of the year, practically without a halt. The white metal has declined in the London market from 42d. in January to about 31d., the present level. This compares with 89½d., the price of a year ago. Present quotations are lower than for any time since August, 1916.

The New York market slumped together with the London market. Current prices are 53 cents, as compared with 70 cents at the beginning of the year. Silver sold as high as $1.37 in New York in 1919. The extremely low price of silver can be appreciated from the fact



that it is now quoted at a price only slightly above 50% of that paid by the United States Treasury, under the Pitman Act, for silver produced in American mines.

Weakness in the metal is naturally attributed to a lack of buying power. London cables report hardly anything else, so far as the Orient is concerned, but trade stagnation and political troubles. There are also several important bank embarrassments. The Far East is normally the biggest consumer of silver, and when conditions there are unfavorable, they simply do not buy the metal. In fact, China, or at least Chinese banks, are reported heavy sellers; and a considerable short-interest has been built up in recent weeks.

Technical conditions, however, are not wholly responsible. The Shanghai branch of the Philippine National Bank has lately become involved in difficulties. This branch has silver holdings, estimated variously at between 25,000,000 and 30,000,000 ounces, and there is considerable apprehension lest these large holdings be thrown on the market. In the meantime, the Chinese banks are not likely to cover as long as there is a possibility that the Philippine National Bank will unload its silver holdings. This situation, of course, tends to demoralize the silver market, and it will probably take some time before a workable plan is adopted which will relieve the big bank of permanent embarrassment. The existence of the large Chinese short-interest, however, tends to act as a brake and the slightest necessity for covering on the part of the Chinese interests would inevitably force the price of the commodity to a considerably higher level.

There can be no doubt that the white metal is selling at present low levels on account of the unusual nature of the present situation. While the decline basically represents the unfavorable trade position of the Far East, the decline has gone far enough to more than discount the present situation. A very good speculative opportunity is offered here for those in a position to wait the inevitable adjustment.

Exports of American silver—referring, of course, to Mexican silver refined by American interests—are on the decline. In fact, the volume is now smaller than for several years, showing a decline of some 75% from last year at this time. This, of course, is a natural result of the present unsettled condition with regard to Far East affairs.

PAPER

Sluggish Conditions Prevail

THE situation in the paper industry is highly mixed, some branches of the industry doing better than others. On the whole, however, it is apparent that the industry is still suffering from the effects of conditions which sent it on the downward path some months ago.

Newsprint has been fairly active, with the commodity changing prices at declining prices. It is now possible to get newsprint in the spot market on a 5-cent basis. Contract prices still range at about the 5½-cent level. It is reported that exports have been arriving in this country sufficiently to be considered a factor in price-making. More than any other factor probably, this accounts for the comparative weakness in this market.

The market for book paper is dull. Consumers are well supplied with stocks, and even price concessions do not attract them. It is likely that demand will continue subnormal for some time.

The situation in wrapping paper is more interesting on account of the relationship between this department of the market and general business conditions. Large consumers, such as department stores and mercantile houses, prefer to do as little buying as possible until conditions in the business world improve more sharply. Nevertheless, the wrapping paper business

has improved to some extent, although it is nothing like normal.

The fine paper market is doing better than some of the others, though prices are by no means stabilized. Prices have not been cut sufficiently, and it is probable that there will have to be further price-cutting before a really satisfactory business can be produced.

The tendency is to hold back mill orders as much as possible, and as a result there has been some curtailment of mill activity, though not to a great extent. Consumers of various sorts of paper, particularly those used by printers and publishers, are still fairly well stocked up with goods bought at the peak of last year's prices. These people are not under the necessity of going into the market for more supplies.

The paper distributors are in about the same position. Many of them kept on loading up right up to the end of last year, despite the fact that the general situation pointed to a cessation of activity in most lines.

On the whole, while conditions in the paper industry are not good, they are better than those in most industries and vastly better than those in a few. Mills are operating at probably 50-60% capacity, which compares favorably with mills engaged in the manufacture of some other products.

TEXTILES

Underlying Conditions Unchanged

INCREASING unemployment in certain industrial centers has resulted in a falling off in buying of textile goods, particularly the fancy sort. The staple lines are moving in better fashion. Buying in general, however, is on a restricted basis all the way from jobber to consumer.

The drop in raw cotton values is not looked upon as a favorable development, even by the manufacturers who ordinarily would stand to gain. The reason is that present low cotton values are having a depressing influence on other textile lines. A surprising number of retailers are quite familiar with the fluctuations in cotton and cannot be persuaded to load up on other lines when they see weakness in this department.

The larger retail stores, including department stores, are buying only for present needs. Orders for 60 days ahead are comparatively rare, the average being about a week or two ahead. Some stores even put in an order for the same goods two and three times a week. This, of course, is a natural result of the unevenness in the various textile markets and the uncertainty as to when public buying will appear on a broad scale. Business in the industrial districts is slightly better than in the farming districts, the mail-order houses showing a great shrinkage.

In the great cities, business has been good. The big stores have had great success with their sales of clothing, which was due to the exceptionally low prices at which these goods were offered. Stocks have been liquidated in a very satisfactory manner. The smaller retailers, in general, have not followed this policy and they are still loaded up with goods. This situation is particularly true of the retailers in smaller industrial cities.

In general, it does not seem possible that the textile trades will recover sufficiently by the middle of Spring to lay the basis for a substantial year. The difficulties are still too great, and the increasing unemployment is upsetting all the confidence which was displayed at the beginning of the year. The tendency toward economy on the part of the ultimate consumer is very marked, and the clothing and allied industries are feeling the effects of this rather keenly. As stated above, this is more true of the farming and less important industrial centers than of the big cities.

Business is improving in the woolen goods industry. New prices on Fall fabrics have been low enough to encourage wholesale buying and the mills will probably be fairly busy through the Spring and probably Summer months. This does not affect retail Spring business, which does not look as if it will be more than 50% of normal.

The silk industry is in slightly better shape, but is meeting the same difficulties as in the case of the cotton and woolen goods trades. There is considerable activity, however, in certain lines of fashionable silk. The more staple kinds do not show the same success. Buying is of the hand-to-mouth variety and there is no disposition to load up on stocks. Retailers refuse to carry goods, except those absolutely necessary, the brunt, of course, falling on the manufacturers and jobbers.

Wage reductions are becoming more frequent and more drastic. Cuts of 33⅓% are not infrequent. The general disposition on the part of the workers is to accept these cuts with resignation, although here and there are rumblings of dissatisfaction and some actual strikes. The liquidation of labor has proceeded more smoothly, however, than was thought likely several months ago.

THE PREMIER RAIL SECURITY

(*Continued from page 678*)

cash requirements as set forth in the plan, provisions were made for the retirement of all equipment obligations maturing prior to December 31, 1915, leaving undisturbed by the reorganization $2,541,000, maturing after December 31, 1915. These, of course, were assumed by the new company.

St. Louis & San Francisco Railroad Company: Reorganization plan dated November 1, 1915. Cash requirements, as set forth in the plan, provided for the retirement of all equipment trust obligations maturing prior to July 2, 1917, leaving undisturbed by the reorganization $5,206,000 maturing after that date, these obligations to be assumed by the new company.

Missouri Pacific Railway Company: Reorganization plan dated July 1, 1915, and modified July 25, 1916. The equipment trust obligations maturing from June 30, 1916, to June 30, 1918, to the amount of $2,270,000 were paid in cash, leaving undisturbed $2,937,000 maturing after June 30, 1918.

Pere Marquette Railroad Company: Reorganization plan dated October 30, 1916 Cash requirements under the plan provide for the retirement of obligations maturing prior to January 1, 1917, $1,056,000.

From the foregoing it would seem that the position of equipment trust obligations as a sound investment has been firmly established. This is further borne out by the fact that they are not subject to such violent market fluctuations that other forms of securities are subjected to in periods of financial depression. A list of a few of the more important obligations of this sort is contained in the table accompanying this article.

PROVIDING FOR YOUR INHERITANCE TAXES

(*Continued from page 697*)

ample has been followed by many other men of national prominence, among whom may be mentioned George D. Widener, of Philadelphia; John E. DuBois, of Pennsylvania; Julius Rosenwald, Louis F. Swift, William Wrigley, Jr., of Chicago; five of the DuPonts, of Wilmington, Del., etc. Each of these men has recently taken life insurance of $1,000,000, or over, for the express purpose of paying the "death taxes" on his estate.

Elihu Root aptly sums up the situation as follows:

"I have come to the distinct conclusion that by far the best, and, indeed, almost the only practicable way of guarding against the possible ruinous loss of a forced sale of securities for the purpose of paying the various estate and inheritance taxes which are being imposed nowadays, both by the national and the State Government, is by means of life insurance, which for a moderate annual payment, will insure the sum necessary to pay such taxes without the sacrifice of the securities."

The wisdom and prudence of such a course would seem to be apparent to every thinking man, and prompt action along these lines should not be delayed.

Norway

(Continued from page 669)

ing as they, to many people, undoubtedly are surprising, show that during the war, and particularly in 1917, Norway was a market of great importance for American goods and to such a degree that in the year mentioned, one-third of the country's total imports came from the United States of America. The proportion is otherwise if we consider the position of Norwegian goods in the United States. The American consumption of Norwegian goods has not increased. This is not due to inability to compete but to the circumstance that the goods have not to a sufficient degree been made known on the American market by means of advertising. It will therefore be of interest to investigate the prospects of further imports to the United States.

Amongst the Norwegian goods possessing possibilities in this connection the following should first be mentioned: dry cellulose and dry wood pulp, paper and articles made of paper, dried fish, smoked sprats (brisling) and other canned goods, salt mackerel and smoked herring, cheese, seal-skins, fish oil, herring meal and matches.

Cellulose

The first Norwegian mill for the manufacture of cellulose (chemical wood pulp) was founded in 1860, but it was not until the last 20 years that this branch of industry, which is so important at the present time, began to progress. In spite of the fact that the price of raw materials has risen to a higher degree in Norway than in the neighboring country, the Norwegian cellulose manufacturers have hitherto maintained a good position in the competition for the simple reason that they have endeavored to the utmost to keep pace with the times. Thus, they have introduced into their mills the very latest technical improvements, employed rational methods of working and have taken care to have adequate utilization of waste products, with the result that the cost of manufacture has been kept down at the lowest possible level. The products of this branch of industry make up at least one-fifth of the total exports of the country.

Norwegian cellulose is sold chiefly to Great Britain, France and Italy, but its markets also extend to the farthest regions of the earth, and its good quality has been recognized wherever it has been introduced. Since American importers have confirmed the fact that Norwegian cellulose is very far advanced in quality, it should be possible to increase the export to the United States of America. During the war, the market for Norwegian cellulose was somewhat limited on account of tonnage difficulties, but now that these obstacles are no longer present it will again be able to take its old place on the world's markets.

In the year 1913 the United States imported 80,000 tons of Norwegian dry cellulose and other wood pulp.

Paper

Paper is the next important Norwegian export article, which especially under the existing conditions in America should be insured the attention of importers.

The first paper-making machine came to Norway in the year 1838, but it was not until the present century that this branch of industry attained the prominent place it now occupies in Norwegian industrial life. In the short period from 1903 to 1913 the production was more than trebled. In the latter year there were 85 paper machines at work, distributed amongst 44 mills. The total production of paper in Norway in 1913 was about 210,000 tons, of which about 180,000 tons were exported. Norwegian exports of paper to the United States in the same year were over 4,000 tons, but were subsequently the object of a decrease on account of the war, so that in 1917 the figures were 1,465 tons.

The varieties of Norwegian paper most consumed by the United States are blotting-paper and packing paper.

Fish

Norway is pre-eminently a land of fisheries, and fish and fishery products occupy a prominent place among the export articles of that country. The value of this class of exports in the year before the war amounted to about 125,000,000 kroner. Of Norwegian dried fish the United States imported during the same year 1,200 tons. Next came a quantity of salt mackerel and smoked herring.

The technical methods of refrigeration have developed in Norway during recent years to an extent not dreamed of before, and this has resulted in the market for fresh fish being constantly extended. There are normally exported each year about

90,000 tons of fresh fish on ice, that is to say, these exports have been trebled in 20 years. As the methods of refrigeration are constantly being improved, we may expect a steady increase in these exports.

Canned Goods

The preparation of fish as a canned product in a number of various forms has, on account of peculiar natural conditions in Norway, grown to be an industry of quite special importance. Under normal conditions Norway exports annually canned goods to a value of about 50,000,000 kroner. The quantity exported in the last normal year, 1913, was 31,000 tons. The canning industry in Norway goes back as far as the year 1841. There are now two hundred canning factories in this country.

There are various reasons why the products of this industry, especially of the Norwegian brisling (the "Norwegian Sardine"), have attained a leading position on the world's markets, so that consumers often prefer them to the products of competing countries. As far back as the end of the nineties, Norwegian factories began to introduce folding machines which can fold 6,000 to 10,000 sardine boxes a day. Later on, about the year 1900, there was introduced a method whereby the soldering of the sides of the boxes was avoided, so that the latter were made ready for filling by one single blow of the press. Thereby much was gained in a hygienic respect, while at the same time the production of boxes was greatly multiplied (about 18,000 boxes per day), without it being necessary to increase the number of workers. These machines, which through Norwegian ingenuity have gradually been brought to a high degree of perfection, are now exported from Norway to foreign canning factories. In addition, the conditions of labor in the factories have been improved during the last decades, so that they can now satisfy the strictest requirements. Thereby the demand for absolute cleanliness during treatment has been complied with, to its utmost consequence.

In this way the Norwegian canning industry has won renown as a model one among many foreign experts in the branch.

Among specially famous products should be mentioned smoked brisling (sardines), smoked herring, unsmoked herring (sardines), spring herring, small herring, crabs, anchovies, fish balls, fish puddings, fish gratin and cod's roe.

In 1913 4,500 tons of smoked brisling were exported to the United States, and about the same quantity of other canned goods. However, it is probable that when American consumers have become acquainted with the superiority of these products it will be possible to increase the exports to a quite considerable degree.

It must be admitted that some of the consignments of mackerel and canned goods that were shipped during the war were not equal in quality to what American importers were accustomed to receive from Norwegian producers. This, however, was due to various difficulties which were a direct result of the war, and Norway now supplies fish goods which can fully maintain her old reputation.

Fish Oil and Meal

Among other Norwegian fishery products there are two in particular which in recent times have aroused interest among American importers, viz., fish oil and fish meal. Several qualities of fish oil are produced in Norway, viz., steam medicinal fish-oil (cod-liver oil), raw medicinal fish-oil, clear fish-oil and clear brown fish-oil, brown fish-oil, seal oil and whale oil, and lastly, herring oil. The total exports of these various kinds of fish oil in the normal year 1913 was 270,000 hectoliters, while of fish meal 9,000 tons were exported. As this industry is steadily developing, and a number of factories in order to make sales more effective have established joint sales offices, it will be possible to supply larger and larger quantities to the United States. Norwegian herring meal is especially in demand in America, because inter alia, it contains only small quantities of water. Quite recently considerable quantities were exported to Wilmington, Baltimore, Charleston, Atlanta, St. Louis, Savannah and Chicago, where it has been used both as a fertilizer and as fodder.

Matches

Norwegian matches are also among the commodities which by degrees have won universal recognition. The annual production is 750,000 cases, each containing 600 dozen matches. The consumption of aspen for this industry is about 700,000 cubic feet or about 30 ordinary ship-loads. The Norwegian match factories have been at the head of many social reforms for the betterment of the workers' conditions.

The industrial expansion of Norway during the last few years has been connected with the development of the electro-chemical industry. Both the latter and the industrial development of the country in general are closely connected with the water-power of Norway. According to the latest estimates, the total water-power of Norway if rationally utilized could give energy amounting to about 15 million H.P. Of this power only one-tenth is as yet utilized. With these possibilities for Norway's industrial development, the exports of that country might become a factor with which the world's trade would have to reckon.

In order to facilitate trade connections with the United States, there was established in 1910 in Norway a special Norwegian steamship line to America. This has now a fleet of 104 passenger steamers, cargo steamers, tugs and lighters, with a total of 312,000 tons.

NORWEGIAN BONDS AS INVESTMENTS

(*Continued from page 690*)

on giving six months' notice, the bonds were called for redemption on the first of May, 1898, the holders, however, having the option of retaining their bonds at 3%. In order to make the conversion attractive, the government agreed not further to reduce the interest on the bonds stamped for reduction of interest, nor to increase the annual sinking fund. These bonds are exempt from any Norwegian taxation and are payable in London in sterling; in Hamburg in reichmarks; in Paris in francs,

and in Christiania at 18.13⅓ kroner per £ sterling.

Two Other Sterling Issues

There are two other Sterling issues of Norway; one is the 3½% Conversion loan of 1894 and the other the 4% loan of 1911. All four of these issues are actively traded in on the principal continental stock exchanges and were originally issued in London. The sinking fund and other features of the bonds are quite similar and they have a high rating with other international obligations wherever they are listed.

Naturally, it is the dollar issues of Norway that are best known in this country, though many far-seeing investors have taken interest in the sterling issues and some even in the internal kroner issues of Norway, because of the possibilities for profit through an appreciation in exchange. The rapid advance from $300 to $390 per £200 bond shown by the 3's of 1888 in this country was indicative in itself of the demand for such bonds on the part of the American investor. Norway's credit, as has been said, is especially high and the fact that she has always been able to borrow at from 3% to 4½% is evidence in itself of the standing she has in the financial markets of the world.

WHY THE ACTION OF THE MARKET IS A BETTER GUIDE THAN THE NEWS OR THE FUNDAMENTALS

(Continued from page 710)

who get the business down still finer: they play for eighths, which, multiplied many times during the day, yield considerable money. Thus, they, too, have an important part in influencing Supply and Demand.

The odd-lot orders are filled by the few houses which are dealers in odd lots, and these houses are supposed to even up their commitments as they go along, so that one purchase of 50 shares, one of 30 shares and two of 10 shares each, is reflected in a 100-share purchase by the odd-lot dealer.

The insider, who swings enormous lines of stock, naturally makes the greatest impression on the tape. His dealings are in round lots, and when he is buying or selling heavily the volume of transactions is greatly swelled. After he has accumulated his line and is busy marking up prices, the persistent advance is the strongest indication of what he is trying to do. Having advanced his stock to the desired level, his selling can usually be detected by any one capable of interpreting the action of the market.

When the insider goes to a directors' meeting and learns that his company's earnings have shown a large increase, foreshadowing dividend prospects and leading him to purchase 20,000 or 30,000 shares, these purchases appear on the tape, and if they are accompanied by others for account of his fellow-directors or members of a pool, or those in their confidence, the market for this particular stock broadens, with a sympathetic movement in the rest of the list.

Thus we see that the market records the net proceeds of everything that has been poured into this financial "hopper."

BOND BUYERS' GUIDE

THIS table includes many of the active bonds listed on the New York Stock Exchange.. They are classified but not necessarily recommended. An endeavor has been made to arrange them in the order of desirability as investments, based upon security of principal and income return. The arrangement below attempts to balance these two factors. This table appears in every other issue of The Magazine of Wall Street.

Foreign Government Bonds

	Apx. Price	Apx. Yld. %
Belgian, 7½s, 1945	96½	7.80
Jap. 4s, 1931 (par $974)	64	9.30
Jap. 1st 4½s, 1925 (par $974)	82¼	9.00
Jap. 2nd 4½s, 1925 (par $974)	82¼	9.00
U. K., Gt. B. & I. 5½s, Nov., 1922	94½	9.50
Paris 6s, Oct. 15, 1921	96	10.20
U. K., Gt. B. & I. 5½s, 1929	88½	7.25
French Cities 6s, 1934	76	9.10
U. K., Gt. B. & I. 5½s, 1937	85	7.00
Dom. Canada 5s, April, 1921	99½	6.00
Dom. Canada 5s, April, 1926	91	6.90
Dom. Canada 5s, April, 1931	89½	6.30
Dom. Canada 5½s, Aug., 1929	92	6.70
U. K., Gt. B. & I. 5½s, Nov., 1921	99	7.60
Dom. Canada, 5½s, Aug., 1921	99½	6.70

Industrial Bonds

	Apx. Price	Apx. Yld. %
†Midvale Steel 5s, 1936	76	7.60
§Va.-Car. Chem. 1st 5s, 1923	92½	8.40
‡Chile Copper 7s, 1923	93½	10.00
§Colorado Ind. 5s, 1934	70	8.75
§Wilson & Co., conv. 6s, 1928	86½	8.30
‡Chile Copper 6s, 1932	71½	10.20
§Western Electric 1st 5s, 1922	95¼	8.40
§Amer. Cotton Oil Deb. 5s, 1931	75	8.50
‡Int. Mer. Marine 6s, 1941	80¼	7.95
§Braden Copper 6s, 1931	83	8.40
§Central Leather 5s, 1925	90	7.40
§Beth. Steel Ext. 5s, 1926	90	7.10
§Wilson & Co., 6s, 1941	88	7.10
†Beth. Steel Ref. 5s, 1942	82¾	6.50
†U. S. Rubber 5s, 1947	78	6.80
‡Col. Fuel & I. 5s, 1943	81½	6.60
†Amer. Smelt & Ref. 5s, 1947	77¼	6.85
§Armour R. E. 4½s, 1939	78½	6.50
§Rep. I. & Steel 5s, 1940	85	6.35
†Lackawanna Steel 5s, 1950	75¾	6.95
‡U. S. Steel 5s, 1963	94½	5.35
‡Gen. Elec. Deb. 5s, 1952	87	5.90
†Gen. Elec. Deb. 6s, 1940	100½	5.95

Public Utility Bonds

	Apx. Price	Apx. Yld. %
§Amer. Tel. & Tel. 4s, 1929	78½	7.30
‡Nor. States Power 5s, 1941	76½	7.20
§Manhattan Consol. 4s, 1990	56	7.20
†Amer. Tel. & Tel. 6s, 1925	96¼	6.90
‡Consol. Gas N. Y. 7s, 1925	99¼	7.20
†Pac. Gas & Elec. g. & r. 5s, 1942	77½	7.00
†N. Y. Telephone 6s, 1949	89½	6.80
§Detroit Edison 1st coll. 5s, 1933	88½	6.30
†Amer. Tel. & Tel. 5s, 1946	80¾	6.60
‡N. Y. Telephone 4½s, 1939	79¼	6.40
†Detroit Edison 1st Ref. 5s, 1940	81	6.75
‡Southern Bell Tel. & T. 5s, 1941	82	6.60
§Western Union Tel. 4½s, 1950	79¼	6.00
†Hudson & M. rf. 5s, 1957 (Ser. A)	65	8.00
‡Colombia G. & E. 1st 5s, 1927	86	7.60
§Pub. Ser. N. J. 5s, 1959	61	8.50
§Int. Rap. Transit 5s, 1966	52¼	9.90

Railroad Bonds Legal for Savings Banks N. Y. State

	Apx. Price	Apx. Yld. %
First Grade:		
‡So. Pac. Ref. 4s, 1955	76½	5.50
§C. Bur. & Quincy Ill. 3½s, 1949	72	5.40
‡Union Pac. 1st 4s, 1947	80½	5.40
‡Atch., T. & Santa Fe Gen. 4s, 1995	77½	5.20
§Chi. & N. W. Gen. 5s, 1987	93	5.40
‡Union Pacific Ref. 4s, 2008	77	5.20
†Nor. & West. Cons. 4s, 1996	76	5.30
§N. Y. Cent 1st 3½s, 1997	67	5.30
§Lake Shore 1st 3½s, 1997	68	5.20
§Ill. Cent. Ref. 4s, 1955	75¼	5.65
§M. St. P. & S. S. M. 4s, 1938	80	5.75
§C. B. & Quincy Gen. 4s, 1958	80	5.20
§Lou. & Nash. Unified 4s, 1940	82	5.50
§Atl. Coast Line 4s, 1952	76½	5.60
§Del. & Hudson Ref. 4s, 1943	78¾	5.70
Second Grade:		
‡N. Y. Cent. Ref. 4½s, 2013	77¼	5.80
†Nor. Pac. P. L. 4s, 1997	75¾	5.30
§Gt. Northern 4¼s, 1961	82	5.35
§Pennsylvania Cons. 4½s, 1960	88	5.20
†Nor. Pac. 3s, 2047	54½	5.50
§C. M. & St. Paul Gen. 4s, 1989	68	5.90
§Pennsyl. Gen. 5s, 1968	88½	5.65
†Nor. Pac. Ref. 4½s, 2047	81	5.60
‡Balt. & Ohio 1st 4s, 1948	68	6.50
†C. M. & St. P. Conv. 5s, 2014	69	7.30
†C. M. & St. P. Conv. 4½s, 1932	68	8.90
‡Balt. & Ohio P. L. 3½s, 1925	81½	8.10
†C. M. & St. P. Ref. 4½s, 2014	63½	7.10

Not Legal for N. Y. Savings Banks

	Apx. Price	Apx. Yld. %
First Grade:		
§So. Pac. Conv. 4s, 1929	78½	7.30
‡Union Pac. Conv. 4s, 1927	84	6.90
§Ore. Short Line Ref. 4s, 1929	79¼	7.20
§Peoria & Eastern Cons. 4s, 1940	60¾	8.00
§Colo. & South 1st 4s, 1929	81½	6.80
‡Atch., T. & Santa Fe Adj. 4s, 1995	69	5.80
‡South Pac. Col. 4s, 1949	71	6.15
§Ches. & Ohio Gen. 4½s, 1992	75½	5.95
‡Cen. Pac. Ref. 4s, 1949	72¼	6.05
§Lake Shore Deb. 4s, 1931	82½	6.20
†Ore.-Wash. R. R. & N., 1961, 4s	71	5.85
†Western Pac. 1st 5s, 1946	82	6.45
‡Ill. Cent. C. St. L. & N. O. 5s, 1963	85	6.00
‡So. Pac. Conv. 5s, 1934	94	5.60
§N. Y. Cent. L. S. 3½s, 1998	61½	5.70
§Kan. City Term. 4s, 1960	71	5.90
§Atl. Coast Line L. & N. 4s, 1952	66½	6.50
§South. Ry. Cons. 5s, 1994	85	5.90
§New Orleans Term. 4s, 1953	63½	6.90
§Ill. Central 5½s, 1934	91½	6.40
§St. Louis S. W. 1st 4s, 1989	66¾	6.00
§Reading Gen. 4s, 1997	81¼	4.95
§San Ant. Ar. Pass 1st 4s, 1943	63	7.35
Second Grade:		
§St. Louis S. W. Cons. 4s, 1932	63	9.15
§Wabash 1st 5s. 1939	87	6.15
§Kan. City South, 3s, 1950	54½	6.45
†St. Louis-S. F. P. L. 4s, 1950	60½	7.25
§Rio Grande West 1st 4s, 1939	63¼	7.70
‡Den. & Rio Grande Cons. 4½s, 1936	68	8.10
§C. C. C. & St. L. Deb. 4½s, 1931	76	7.80
§N. Y. C. & St. L. 1st 4s, 1937	78½	6.00
§C. R. I. & Pac. Gen. 4s, 1988	70	5.70
†Virginian 1st 5s, 1962	82½	6.15
†Pere Marquette 5s. 1956	81¼	6.35
§Ches. & Ohio Conv. 4½s, 1930	75	8.20
†Colo. & South Ref. 4½s, 1935	73½	7.45
§Rio Grande West Coll. 4s, 1949	51	8.60
‡Ches. & Ohio Conv. 5s, 1946	82¼	6.40
†N. Y. Cent. Conv. 6s, 1935	89	7.20
‡C. R. I. & Pac. Ref. 4s, 1934	67½	7.90
§Cent. of Ga. 6s, 1929	85½	8.30
§Kan. City South Ref. 5s, 1950	74¼	7.05
§South Ry. Gen. 4s, 1956	57½	7.50
§Balt. & Ohio 6s, 1929	89½	7.65
†St. Louis S. F. Adj. 6s, 1955	65	9.40

†Smallest denomination $100.
‡Smallest denomination $500.
§Smallest dencmination $1,000.

THE TASK OF THE NEW ADMINISTRATION

(Continued from page 665)

Restoring the World's Markets

"It is easy to see," I interrupted, "how this situation affects every American merchant and manufacturer and laborer—but how is it to be overcome?"

"So far as it is due, and it is largely due to the depreciation of the currencies of the European nations, this demoralization must be overcome by getting those currencies back upon a gold basis as rapidly as possible. This means individual and governmental economy and thrift. This means keeping expenditures below income, both for families and for nations. This means paying off public indebtedness and reducing the volume of inflated currency. Of course, each nation must do this for itself, but it cannot make much headway unless its people are occupied profitably in agriculture and in industry, and unless they can sell their goods both at home and abroad—and they cannot do that until the buying power of stricken and impoverished millions is in some degree restored."

"What can America do?"

"America, in her own interest as well as

(Continued on page 733)

ANSWERS TO INQUIRIES

(Continued from page 693)

trict of Chicago. The company operates 84½ miles of line, practically all of which is double track construction. The company serves about 12 fairly prosperous communities in Illinois and Wisconsin, and its mortgage bonds are well secured.

RUSSIAN GOVT. 6½% NOTES
Status of Its Debts

The authorized issue is $50,000,000 outstanding, dated July 10, 1916, due July 10, 1919. The status of Russian bonds in general has been altered as a result of the World War, the overthrow of the monarchial government, and the establishment of different forms of popular governments in the last three years. The Allies have attempted, by recognizing them, to establish various forms of governments, but it has been impossible to secure, so far, popular consent to any. If past history is any guide to the future, many changes are likely before a permament form of republican government is established or recognized.

Russia has the distinction of the greatest floating debt of any country in the world today, and the least chance of paying. We believe that bonds issued before the war, including this issue, especially external debts such as this, will have to be recognized ultimately and paid in money that represents value to foreign holders. In other words, payment in roubles would never be possible.

Within the next two or three years we expect to see a settlement of Russian affairs, and it would seem unwise to sacrifice holdings at present nominal prices. Russia is a country of large natural resources and great wealth. Its stable condition can be restored and natural wealth turned into production for the purpose of growth, and the repayment of its debt.

C. C. C. & ST. L. 4½s—1931
Well Rated Bond

This road is controlled by New York Central and has done relatively much better than a large number of railroad systems operating under present conditions. For a period of ten years, the company was able to earn interest charges for this particular bond about 1½ times, and the bond itself is together with a European loan of $9,000,000 secured equally with the company's refunding and improvement 6s as a direct lien on 1,827 miles of railroad and on the company's interest in 568 miles of railroad operated under lease.

This issue is outstanding to the extent of $5,000,000 and not redeemable until maturity. This bond has a good rating.

AMERICAN TELEPHONE
Big Equity for Stock

The bonds of the company are considered safe, as a group of its active bonds, requiring about $9,500,000 against income available of a little over $42,000,000 showed an earning power of approximately 4½ times the interest during a representative 5-year period. The company is not actually making big money as far as stockholders are concerned. In fact, net earnings were just $8.85 a share

for the period, a rather narrow margin over the $8 dividend requirements for the full year. Net earnings for the common during the past ten years have held permanently between 9.5% and 10%, yet the dividend of $8 has been paid regularly and the officials of the company have frequently stated that this dividend will be maintained. Within recent years 90⅝ was the low for the common and aver high levels formerly 125 to as high as 140. Large sums have been reinvested and book value of common is about $200 a share.

The Public Service Commission is in control of rates and in the past it has been the policy to allow American Telephone a fair return on its investment. Whether the Public Service Commission will consider it necessary to allow stockholders $8 a share as a fair return is still debatable.

The stock around 100 sells on an 8% basis and in the past has been classed as an investment issue. It formerly rose and fell largely in sympathy with money rates, and should the company make progress and money become easier within the next five years, the stock ought to sell upon a 6% basis, which would be about $114.

STATE OF SAO PAULO
8% Gold Bonds—1936

$10,000,000 of these bonds were put out this month, together with a similar quantity of Sterling bonds in London. Sao Paulo is the principal state of Brazil. The bond is an obligation of that state and secured by a first charge on the surtax of 5 francs per bag of coffee exported in the state. The loan is intended to be used to repay internal debts. A sinking fund is to be created for the purpose of bonds at or below 105 until November, 1925, and thereafter to redemption. The bonds are being offered at 97½ to yield 8.47% if held until redeemed. Interest will run from March 1, 1921.

The Republic of Brazil as well as the State of Sao Paulo are in good standing and no exception can be taken to these bonds. However, a large amount of foreign financing is still in sight as well as possibility of a large international loan and the possibility of a new Allied bond issue to cover the indemnity to be received from Germany. All this may have a halting effect on foreign or even South American bond issues and it would not surprise us to see bonds of this character put out eventually on a somewhat higher yield basis.

ANGLO AMERICAN OIL CO., LTD.
Current Depression Perhaps Temporary

This company, established in 1888, represents the Standard Oil Company in the United Kingdom, owning receiving, storage and distributing facilities, including steamers, tank cars, etc. The stock has a par value of £1, which would be equal to about $4.87 with exchange at normal. It is currently selling around $18, or approximately nearly five times its par value. The company has outstanding £3,000,000 in stock and $15,000,000 in 7½% notes. Dividends amount to 30% annually on par, or about $1.27 at present rate of exchange. The income return is, of course, very small.

Apparently the profits of the company are commencing to decline, as for the year ended 1919 (last reported) the net profits after all charges, but before dividends, amounted to £1,201,679, from which dividends amounting to £900,000 were paid, leaving a balance of £301,679 compared with £908,522 in the preceding year.

The company was very prosperous during the period of 1916-1920 and the stock advanced from a low point of around 6 before the war to above 30 in recent years.

COMMANDING YOUR BANKER'S SUPPORT

(Continued from page 687)

cessfully. Here are the facts and here are the charts and figures that prove them."

The more conservative your banker is, the more willingly he will listen to frank talk like that. He wants to distinguish between the guesswork founded on unsystematic procedure, and the definite, provable facts. He relies upon co-ordinated knowledge to make his decisions. Consequently he would be the last one to "turn you down" when your own presentation is also made upon co-ordinated knowledge. Your banker is your friend.

A banker wants to know the likely effect on the investment of running at greatly reduced capacity. He wants to know whether speculation, or safe and shrewd buying, is the basis of purchasing. He wants to know just what the net profit in operating really is. Knowing these things, he can decide whether he will assist, on the merits in the case; not knowing them, he will probably "play safe" and decide against helping. Knowing true conditions, he does not have to fall back on over-strict conservatism to help him out, but can get right into a consideration of the pros and cons of tangible things.

The banker will be quick to see that if he had 10 dairy cows, and 5 of them went dry, he wouldn't assess the cost of maintaining the 10 cows, against the production of the 5 producing cows, in determining the price of the milk, during the time the 5 cows were dry.

Show your banker the effect of idleness in industry. Ask him who pays for it, and who finances it. He will quickly see that when producing above normal, high prices must be secured in order to offset the losses sustained at the low points.

The Plan in a Nutshell

My message in a nutshell is:

Supply the products the world so urgently needs, by determining normal requirements; normal capacities; normal hourly outputs; normal costs; normal profits and normal prices—using them as a basis for conducting your business. Secure your banker's support by laying all the cards on the table, regarding volume, purchasing and operating profits or losses.

In so doing, you will decrease unemployment and idleness in plants, avoid drastic wage cuts and assist materially in stabilizing industry and finance.

BALTIMORE & OHIO

Status of Common and Preferred Stocks

While in recent years the earnings of the B. & O. over a considerable period averaged almost twice the 4% dividend requirements of the preferred issue and the stock had a high investment rating, this margin of safety has been declining steadily. In the three months period ending November 30, and during which time about 30% of the year's traffic is hauled, the B. & O. earned its preferred dividend for that period and an amount equal to the annual rate of 2% on the common stock. Since then, however, business has fallen off materially, but unless the existing trade depression is extended there is not much doubt that the dividend on this issue will be earned. In any circumstances it is advisable to watch monthly statements of earnings closely in the hope that economies recently put into practice may soon find some reflection in the net results.

The 4% dividend on the common issue was suspended June 25, 1919. It now appears that holders of the B. & O. common will have to wait for a further indefinite period before any consideration can be given to a resumption of dividend payments. Not only will a pronounced business revival of considerable duration be needed, but out of increased earnings that may result from such a change, large appropriations must be made to rehabilitate the property. The outlook for the common stock holder is therefore one that only offers encouragement from the long range point of view. Present earnings around 2% on the common and no indications of early improvement. We would switch into St. Louis Southwestern common or Colorado Southern common, both doing very well under the new conditions.

PROGRESS TOWARD READJUSTMENT

(*Continued from page* 674)

They show a falling off in the activity of credit turnover—the extent to which customers employ their deposit credits at the banks in their business operations. This is a direct reflex of the reduction of business activity. Coupled with the fact that the gross amount of accommodation has fallen so little, it suggests that there is still in the banks a considerable amount of paper which represents the obligations of enterprises that are being carried during a time of relative inactivity pending the revival of business which will assist them to liquidate. Of course as the period of depression grows longer the ability of the banks to carry such distressed customers is likely to be less. It is for these reasons that there has been in some quarters prediction of further business embarrassments resulting in the retiring of various concerns from trade. In this connection, however, the forecasts should be received with great hesitation, it being remembered that they were freely made at the close of 1920 but at that time enjoyed only a very scanty fulfillment.

Other Indications

Notwithstanding the fact that production conditions continue to be depressed, the buying power of the public, as illustrated in the retail trade figures, show that the turnover and activity of purchasing continues to be strong. At some points on the seaboard there has been during the past weeks a well sustained buying which has resulted in drawing down mercantile stocks in a very considerable degree as a result of which there is a marked increase in the placing of orders for future delivery. A decrease of buying, estimated at 12.3 per cent in New York and 14.3 per cent in San Francisco, shows that the situation is what is called "spotty" and that conditions vary considerably between different parts of the country. In the wholesale trade there is a tendency toward decrease with sharp losses in sales still in evidence over the south and west. Exception may be noted in individual lines due to the somewhat variable and uncertain condition which has already been described in connection with what has been said of retail business, but the general trend is nevertheless downward. Collections also are somewhat slow and difficult in some parts of the country, a fact which results in a lengthening of the period of credit in a corresponding degree with a proportionate advance in the demands upon banks. Taking business conditions as a whole the country over, while there is abundance of reason for encouragement there are three factors which need to be borne in mind in making any estimate of the future, (1) a large carry-over of agricultural products, the amount of cotton and grain in the hands of producers being the largest in history according to official estimates; (2) the presence of numerous factors of exceptional demand for capital which necessarily tend to keep the rates for money at a relatively high level; (3) the fact that there is still in the possession of banks a very considerable amount of frozen credit resulting from the fact that loans secured by staples in various parts of the country have not been liquidated and that numerous concerns are being carried pending the arrival of better times. As against these factors may fairly be set (1) the continued persistence of good buying demand on the part of consumers generally, resulting in a reduction of stocks and a nearer approach of the time when normal demands will be made upon manufacturers; (2) an increase in employment and in manufacturing activity in certain lines where readjustment has already occurred not paralleled on the part of business in which readjustment is incomplete; (3) continued strong demand for our goods in foreign countries and ability on our part to dispose of large quantities of raw materials and manufactures, especially in those cases where we are able and willing to extend credit. All of these influences reflect themselves in the various indexes of business conditions and produce a curiously variable outlook. Business recovery is, in short, proving slower than had been expected but there is much of a hopeful nature in the prospect.

BUT HIS REPOSE MAY BE DISTURBED

Emerson said: "God offers to every mind its choice between truth and repose. Take which you please—you can never have both."

Respectfully referred to "the sleeping investor."

Financial News and Comment

NOTE.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.

RAILROADS

Bangor & Aroostook.—Has applied for authority to issue conditional sale purchase notes for the acquisition of equipment to cost approximately $132,-750 and to pledge a like amount of its refunding mortgage 4% gold bonds as additional security for a loan from the Government for which it has already made application.

Chicago, Burlington & Quincy.—Interstate Commerce Commission has granted authority to issue additional $60,000,000 capital stock. The Commission denied the road authority to issue $109,000,000 first and refunding mortgage bonds.

Minn., St. P. & Sault Ste. Marie.—Has applied for authority to execute a conditional sale equipment trust agreement and to assume obligations in respect of $2,550,000 of equipment gold notes.

Seaboard Air Line.—Granted authority to issue $713,000 first and consolidated mortgage 6% bonds, maturing Sept. 1, 1945. The carrier was also authorized to pledge with the Secretary of the Treasury as security for loans aggregating $2,625,000 from the United States, the following: The $713,000 of first mortgage gold bonds; $1,077,000 of such bonds now held in the carrier's treasury; $1,521,600 of common capital stock, and $1,055,900 of 4-2% of preferred capital stock also held by the carrier in its treasury.

Western Maryland.—Granted authority to issue $1,500,000 of equipment gold notes, preferred series, and $1,500,000 of equipment gold notes, junior series, and to pledge the junior series notes with the Secretary of the Treasury as part security for a loan from the Government.

INDUSTRIALS

Allied Chemical & Dye Corp'n.—Net Income after depreciation, taxes, etc., for the six months ended June 30, last, as reported to the New York Stock Exchange, was $12,836,242.

American Bank Note Co.—Annual Report for 1920 shows net income, after all charges and Federal taxes, of $2,-175,946, which is equivalent, after deduction of preferred dividends, to $21.20 a share ($50 par value) on the $4,495,700 common stock. This compares with a net income of $1,187,259, or $10.20 a share earned in the previous year.

The balance sheet as of December 31, 1920, indicates current assets of $7,849,-378, against which were current liabilities of $2,735,953, leaving working capital of $5,113,425. Of current assets cash, Government securities and call loans amounted to $2,734,108, while a large part of the accounts payable of $1,837,769 consisted of tax reserves.

American Bosch Magneto Corp'n.—For the year ended December 31, last, the company earned a net income, after charges and Federal taxes, of $945,700. This is equivalent to $9.45 a share earned on the 100,000 shares of capital stock of no par value.

American Hide & Leather Co.—Financial Statement covering the six months ended December 31, 1920, shows a net loss, after depreciation and charges, of $7,082,851. The previous financial statement, covering the year ended June 30, 1920, showed a surplus of $1,104,-656, or $8.80 a share earned on the $12,-548,200 outstanding preferred stock.

American-La France Fire Engine Co., Inc.—For the year 1920 the company reports net profits of $933,760, compared with $924,292 for the year before, and a balance available for dividends of $597,073, against $580,404. After paying out $140,094 in preferred dividends, and $204,672 in common stock dividends, there was a balance of $252,307 which, added to the previous year's surplus, brings the total profit and loss surplus up to $1,-405,010.

American Linseed Co.—Financial Statement for the 15 months ended Dec. 31, last, shows net income, after charges, inventory adjustments and Federal taxes, of $1,764,765, which is equivalent, after payment of the 7% dividend on the preferred stock, to $3.53 a share on the $16,750 outstanding common stock. In the year ended Sept. 30, 1919, the company showed a net income of $3,855,827, equivalent to $16.02 a share on the common stock. President R. H. Adams of the company stated that "in making the statement, we have not written up any paper profits and have made our inventories at replacement values, which has necessitated writing off $3,571,790."

American Radiator Co.—Net Profits for the year 1920 amounted to $4,186,-889, as compared with $3,571,843 for the preceding year. The net profit is equivalent, after 7% dividend on the $3,000,000 outstanding preferred stock, to $28.80 a share of the $13,806,225 outstanding common stock.

American Ship & Commerce Corp'n.—Financial Statement covering the 9 months ended Sept. 30, 1920, as submitted to the New York Stock Exchange, shows total earnings of $4,934,081, and net income of $1,966,917. After deducting expenses, there was a balance of $1,613,883.

The consolidated balance sheet as of Sept. 30, last, shows cash amounting to $2,353,610; accounts receivable, $2,339,523; ship building construction contracts in progress, $1,356,654; inventories, etc., $3,-162,754; accounts payable, accrued interest, etc., $1,679,415; and surplus, $1,830,589, with total assets and liabilities of $60,-649,474.

American Sugar Refining Co.—Annual report for the year ended Dec. 31, last, shows after depreciation and sundry reserves, a deficit of $3,373,811. This compares with a net income in 1919 of $9,418,674, equivalent, after preferred dividends, to $13.93 a share on the $45,000,000 common stock. After payment of dividends there was a deficit in 1920 of $10,-686,280, against a surplus of $1,768,705 in the preceding year. Operating profit last

year was $1,802,438, against $10,283,082 in the preceding year. Profit and loss surplus on Dec. 31, last, was $12,465,858, as contrasted with $23,152,138 at the end of 1919.

The balance sheet as of Dec. 31, last, shows that bills payable on that date amounted to $27,150,000, representing practically all bank loans. Inventories were $45,405,154, compared with $15,033,491 on the same date in 1919, while cash at the end of the year was only $8,839,932, compared with $28,161,871 on Dec. 31, 1919.

American Sumatra Tobacco Co.—Financial Statement, covering the six months ended Jan. 31, last, shows gross profits on sales of $2,145,166, an increase of $328,883 over the corresponding period of the preceding year. Total income was $2,354,211, an increase of $521,953, and net income, before providing for depreciation and Federal taxes, was $1,535,246, an increase of $77,268. The net income for the period, $1,535,246, is equivalent, after preferred dividends, to $10.15 a share on the $14,448,585 common stock, and compares with a net income of $1,457,978, or $9.60 a share on the common in the corresponding period of the preceding year.

The balance sheet as of January 31, last, shows cash in bank and on hand of $1,782,811; notes and accounts receivable, less reserves, $7,984,707; inventories of tobacco on hand, $3,120,155; notes payable, $4,250,700; accounts payable, $346,658; operating surplus, subject to Federal income tax from July 1, 1920, $3,024,440, and total assets and liabilities of $32,355,466.

American Woolen Co.—Annual Report for the calendar year, 1920, shows a surplus, after charges and taxes, of $4,626,855, equivalent, after preferred dividends, to $4.57 a share on the outstanding $40,000,000 of common stock. This compares with a surplus, after Federal taxes, of $10,779,804, or $39.89 a share earned on the $20,000,000 common stock outstanding in 1919.

Atlas Tack Corp'n.—Net Profits, after reserve for Federal taxes for the year ended Dec. 31, last, were $130,853, equivalent to $1.37 a share on the 95,000 outstanding shares of no par value. In 1919 net profits after taxes were $349,289.

The balance sheet as of Dec. 31, last, shows cash, $63,093, compared with $901,412 on April 1; notes and accounts payable, $269,183, against $290,719; merchandise inventories, $984,184, compared with $721,543; accounts payable, $85,686, compared with $93,933, and total assets and liabilities of $3,437,789, compared with $3,561,338.

Bethlehem Motors Corp'n.—Financial Condition.—The report recently sent by the Stockholders Committee to stockholders is discouraging. According to this report, the assets taken over by the Receiver for the company amounted to $4,396,707, of which only $2,685,567 may be considered current assets. The total liabilities, all of which are current, are $3,222,544, so that there is an excess of current liabilities over current assets of $536,977.

Chandler Motor Car Co.—Annual Report for the year ended Dec. 31, last, shows net profits, after depreciation, inventory adjustments and Federal taxes, of $4,213,111. This is equivalent to $15.04 a share earned on the 280,000 shares of common stock of no par value, and compares with net profits of $3,601,733, or $17.15 a share earned on the 210,000 shares in 1919.

Out of last year's net profits, $4,213,111, were paid cash dividends amounting to $2,625,000 and a stock dividend of $700,000, a total of $3,325,000, leaving a balance out of net profits for the year of $888,111, which added to the previous net

surplus, made the final net surplus on December 31, last, $5,974,105.

The condensed balance sheet as of Dec. 31, last, shows cash, $949,791, against $66,541 on Dec. 31, 1919; current accounts, $304,712, against $118,051; merchandise inventory, $5,788,504, compared with $4,302,784, and total assets and liabilities of $16,611,509, compared with $14,835,170.

The directors have declared the regular quarterly dividend of 2½%, payable April 1, to stockholders of record March 21. Following the dividend declaration, President Chandler said: "Business for some time past has shown a marked improvement and shipments at the present time are on a satisfactory basis and are steadily increasing. The Chandler Motor Car Co. is in a strong cash position, has a large volume of business on its books, and has no indebtedness outside of current accounts."

Columbia Graphophone Co. — Dividends Passed.—The directors have passed the common stock dividend. The company for more than a year had been paying regular quarterly dividends of 25c. a share on the common stock, and in addition an extra dividend of 1/20th of a share in common stcok.

Following announcement of the directors' action, it was stated that the reason for suspending dividends on the common stock was the present industrial situation, as well as the desirability of maintaining a strong cash position. It was stated, also, that the report for 1920 will be mailed to stockholders within 10 days.

Continental Motors Corp'n. Dividend Omitted.—The directors have passed the quartely dividend on the common stock due at this time. In the last quarter a dividend of 1% and in the previous three quarters 2% was paid. The directors state that the dividend was passed for the purpose of conserving the company's cash and not on account of lack of business. They state that new orders are coming in daily, more men are being added to the force, and the plants are expected to run close to 50% of normal very shortly.

Kresge (S. S.) Co. — February Sales were $3,467,651, an increase of $2,974,- 033, or 16.6% over the total for Feb., 1920. For the two months ended Feb. 28 sales totaled $6,682,951, as compared with $6,025,619, an increase of 10.91% over the corresponding period of 1920.

Kress (F. H.) & Co.—February Sales totaled $1,850,398, an increase of $223,- 524, or 13.7% over 1920. In the two months to Feb. 28 the sales were $3,623,205, an increase of $363,584, or 11.2% over the corresponding period of 1920.

Lackawanna Steel Co.—Financial Report covering the year 1920 shows a surplus after charges and Federal taxes amounting to $4,294,375. This is equivalent to $12.23 a share on the $35,108,500 outstanding common stock, and compares with a surplus of $356,863, or $1.02 a share earned in the previous year.

Lee Rubber & Tire Corp'n.—Annual Report for the year ended Dec. 31, last, shows net profits after all charges and Federal taxes, of $326,638. This is equivalent to $2.11 a share on the 150,000 shares of common stock of no par value, and compares with net profits of $471,805, or $3.14 a share earned in the previous year. In his report to the stockholders, President John J. Watson, Jr., states that the company's plant is being operated on a basis of about 65% of capacity for the corresponding period of last year. "Sales," he said, "are exceeding monthly production,

and while it is not expected, with prevailing conditions, that dealers will take on large stocks, these dealers are buying continually and indications are that business for this year should be satisfactory."

Liggett & Myers Tobacco Co.—Annual Report for the year ended Dec. 31, last, shows a surplus after taxes and charges of $7,597,803, equivalent after preferred dividends to $18.68 a share on the $32,229,600 combined class "B" and common stock. This compares with a surplus of $5,929,036, or $20.25 a share earned on the $21,496,400 common stock outstanding in 1919.

Loose-Wiles Biscuit Co.—Annual Report for the year ended Dec. 31, last, shows a net income, after interest, depreciation, reduction of inventories and Federal taxes, of $945,793. This is equivalent, after deduction of 1st preferred dividends and $150,000 appropriated for redemption of preferred stock, to $23.78 a share on the $2,000,000 2d preferred stock, and compares with a net income of $2,136,569, or $76.05 a share earned in the preceding year.

McCrory Stores Corp'n.—Annual Report for 1920 shows net income, after Federal charges and taxes, of $619,484, equivalent, after preferred dividends and sinking funds, to $10.24 a share on the $5,000,000 common stock. This compares with a net income of $464,208, or $6.69 a share earned on the common stock in the previous year.

Midvale Steel & Ordnance Co.—Annual Report for the year ended Dec. 31, last, shows net income, after all charges and Federal taxes, of $12,424,919, which is equivalent to $6.21 a share ($50 par value) on the $100,000,000 outstanding capital stock. This compares with a net income of $10,588,605, or $5.29 a share earned in the preceding year. After payment of dividends aggregating $8,000,000 there was a balance of $4,424,919, raising the total profit and loss surplus to $59,865,449.

The balance sheet as of Dec. 31, last, shows property and plants, $183,914,515, compared with $170,250,662 at the close of 1919; cash $27,684,921, compared with $5,803,589; Government securities, $4,496,784; against $39,466,403; accounts receivable, $18,961,742, against $11,292,691; inventories, $45,393,834, compared with $48,071,104; bonded and mortgage indebtedness, $53,525,500, against $54,868,500; surplus, $59,865,449, compared with $55,308,703, and total assets and liabilities of $235,496,106.

Montgomery, Ward & Co. — Feb. Sales were $5,461,849, a decrease of $5,789,304, compared with Feb., 1920. For the two months ended Feb. 28, sales were $11,183,713, a decrease of $8,979,512, compared with the corresponding period of 1920.

National Starch Co.—For the fiscal year ended 1920, the company reports a loss from operations of $330,454, as compared with a profit of $937,493 in the preceding year. Net loss amounted to $319,793, against a net income of $948,790 in 1919; after charges there was a deficit for the year of $926,477, as compared with a surplus of $178,013 in 1919.

New York Air Brake Co. — Annual Report for the year ended Dec. 31, last, shows net profits, after charges and Federal taxes, of $751,860, equivalent to $7.51 a share on the $10,000,000 outstanding capital stock. This compares with net profits of $24,389, or $6.24 a share earned in 1919.

The balance sheet as of Dec. 31, last,

shows the company to be in a fairly strong cash position. Accounts and bills receivable on that date were $2,-302,402, compared with $1,689,843 on the same date of 1919. Inventory was $4,304,151, compared with $5,937,763, and cash and securities totaled $1,473,-277, compared with $2,652,726 in the year before. While accounts and notes payable totaled $5,454,345 on Dec. 31, last, against $237,299 in the year before bills payable are shown to have been completely liquidated, in contrast with the $6,400,000 reported at the end of 1919. The report also contains a significant item, "Net charges, adjusting various assets to present day conditions, $1,534,522." This means that the company has reduced various assets on its books by this amount, so that the remainder is carried on a basis of very conservative valuation.

Nova Scotia Steel & Coal Co.—Net profits, after taxes, for the year ended Dec. 31, last, were $2,376,085, an increase of $182,781 over 1919. The surplus available for the $15,000,000 common stock amounted to $1,039,407, equivalent to $5.73 a share. This compares with a balance of $859,876, or $6.33 a share earned in the preceding year.

The balance sheet as of Dec. 31, last, shows current assets of $10,913,218, against $9,063,082 in 1919, and current liabilities of $4,445,856, against $1,319,-524 at the close of the preceding year.

Porto Rican-American Tobacco Co.—Capital increased. The authorized capitalization of the company has been increased from $5,000,000 to $10,000,000. The company proposes to redeem $1,-343,754 scrip outstanding in stock at par. This will bring the stock issued up to $6,309,104 from $4,965,350.

Quaker Oats Company.—Annual Report for 1920 shows a net loss after depreciation of $5,824,925. This compares with a net profit of $2,679,394, equivalent after preferred dividend to $21.42 a share earned on the $9,000,000 common stock, in the previous year.

Replogle Steel Co.—Income Account for the year 1920 shows gross profits, $189,974; expenses, $477,828, leaving an operating loss of $287,854; other income, $584,062, and surplus after taxes, etc., $3,013.

The consolidated balance sheet as of Dec. 31, last, shows cash assets of $940,124, and inventories of $2,522,897, a total of $3,463,021 current assets, as compared with current liabilities of $545,305.

Robert Reis & Co.—Annual Report for 1920 shows a deficit, after interest and adjustment of inventories, of $29,-571. This compares with net profits of $492,172 in the preceding year.

The consolidated balance sheet as of Dec. 31, last, shows current assets of $4,449,800, and current liabilities of $1,-882,987. Cash was $544,233, compared with $148,883 at the close of 1919; accounts receivable were $901,722, compared with $980,392, and inventories, $2,644,548, against $2,131,584. Notes payable amounted to $1,683,500, against $684,500 the year before, and accounts payable were $199,487, against $831,934. The company has passed the quarterly dividend due at this time.

Stewart-Warner Speedometer Corp'n.—Annual Report for 1920 shows net profits, after expenses, depreciation, and Federal taxes, of $2,210,928, equivalent to $4.83 a share on the 457,525 outstanding shares of capital stock of no par value. This compares with $1,963,-

574, or $4.90 a share earned on the 400,000 outstanding shares in 1919.

The company has sold $2,000,000 5-year 8% convertible bonds, convertible into stock at forty. The proceeds of the sale are to be used for the purchase outright of the Van Sicklen Speedometer Co. of Elgin, the second largest in the United States, and to pay off $200,000 bank loans. This will leave $1,000,000 in the company's treasury.

Stromberg Carburetor Company.—Dividend Passed.—In view of general business conditions, the directors have decided to pass the payment of the dividend usually declared at this time and payable in April. The initial quarterly dividend of 50c. a share was declared March 1, 1917. In August, 1918, the quarterly rate was increased to $1 a share, and last December a reduction to 50c. a share was voted.

It is estimated that the company's net profits for 1920, after all charges but before reserve for Federal taxes, were about $410,000, compared with $401,328, after all charges and after setting up a reserve of $150,000 for taxes in 1919. The 1920 net profits were, therefore, equivalent to about $5.45 a share on the 75,000 shares of no par value capital stock. This compares with $5.35 a share in 1919.

Submarine Boat Corp'n.—Annual Report of the corporation and its subsidiaries for the year ended Dec. 31, last, shows net income, after all charges, but before Federal taxes, of $1,865,995. This is equivalent to $2.43 a share on the 765,920 outstanding shares of capital stock of no par value, and compares with a net income of $2,063,561, or $2.69 a share in the previous year.

Temtor Corn & Fruit Products Co.—Company's Report for 1920 shows a deficit of $248,006, after all deductions, including taxes, depreciation and reserves. Net sales for the year were $6,774,194, and net profits, $263,156.

Tobacco Products Corp'n.—Annual Report for the year ended Dec. 31, last, shows net income, after charges, but before Federal taxes, of $2,023,882. This includes a loss of $102,500 on Liberty Bonds sold during the year, which is not correctly chargeable as an operating expense. If this is disregarded, it would leave a balance of about $2,126,000, which, after payment of preferred dividends amounting to $560,000, would be equivalent to about $8.79 on the 176,000 shares of common stock. In the preceding year the company's net income was $2,072,886, equivalent to $8.59 on the common stock.

The consolidated balance sheet as of Dec. 31, last, shows inventories of $9,108,736, compared with $11,258,868 on Dec. 31, 1919; cash, $876,127, against $658,432; bills and accounts receivable, $977,188, compared with $1,006,200, and bills and accounts payable, $6,384,830, against $8,276,443.

United Alloy Steel Corp'n.—For the year ended Dec. 31, last, net profits after Federal taxes were $2,971,833, equivalent to $5.66 a share on the 525,000 outstanding shares of capital stock of no par value. This compares with net profits of $2,183,838, or $4.16 a share earned in the previous year.

The directors have passed the quarterly dividend of $1 a share due at this time. The stock was placed on a $4 annual basis in December, 1916, and has been maintained at that rate up to the present.

Arrangements are said to be nearing completion for the consolidation of two companies with United Alloy Steel, the Berger Mfg. Co., which makes finished sheet steel products, and the United Furnace Co., from which United Alloy obtains the larger proportion of its pig iron supply. The consolidation of these units is calculated to strengthen United Alloy's position in the steel trade.

United Profit Sharing Corp.—Net Profits in the year ended Dec. 31, last, but subject to Federal taxes, were $240,022, which is equivalent to 14c. a share (25c. par value) earned on the $409,537 capital stock outstanding. This compares with a net profit of $407,130, or 24c. a share earned in the previous year.

United Retail Stores Corp'n.—Financial statement of the company covering the 11 months ended Dec. 31, last, shows a net income after Federal taxes, of $4,784,239, equivalent to $6.03 a share on the 633,102 shares of Class A common stock and 160,000 Founders' shares. The previous report covering the six months ended Jan. 31, 1920, had shown net profits before Federal taxes, of $4,706,332, equal to $8.42 a share on the 558,349 shares then outstanding.

The report of the United Cigar Stores Co. of America for the year ended Dec. 31, last, showed net income after Federal taxes of $5,029,005, equivalent after deduction of preferred dividend to $14.33 a share on the $32,865,308 outstanding common stock. This compares with net earnings of $4,436,479, or $15.16 a share earned on the $27,162,000 outstanding common stock in the previous year.

United States Steel Corp'n.—Unfilled tonnage on hand on Feb. 28, last, amounted to 6,933,867 tons, against 7,573,164 on Jan. 31, 1921, a decrease of 639,297 tons. On Dec. 31, 1920, unfilled orders aggregated 8,148,122, on Nov. 30, 1920, 9,021,481, and on Feb. 29, 1920, 9,502,081 tons.

V. Vivaudou Co.—Dividend Passed.—The Directors have passed a dividend due at this time. In November the distribution was 25c. a share and for several previous quarters 50c. a share was paid. It is understood that dividend payments will not be resumed until the company's sales reach a volume nearer to normal.

Woolworth (F. W.) Co.—February Sales were $9,138,262, an increase of $965,881, or 11.2% over the total for

COMPANIES WHOSE SECURITIES ARE ANALYZED IN THIS ISSUE

February, 1920. For the two months ended February 28, sales were $17,475,989, an increase of $827,229, or approximately 5% over the corresponding period of 1920.

Worthington Pump & Machinery Corp'n.—Annual Report for 1920 shows net income, after all charges and federal taxes, of $2,030,923, which, after allowing for the annual dividend requirements on Class A and Class B preferred stock, was equal to $7.85 a share on the $12,992,149 common stock. This compares with net income of $3,257,064, or $17.28 a share earned in the previous year.

The balance sheet as of Dec. 31, last, shows the company to be in a strong cash position. Cash on hand on that date amounted to $2,370,767, against $1,101,451 on Dec. 31, 1919; United States Government securities totaled $1,978,329, compared with $1,533,412; accounts and bills receivable were $1,470,606, against $1,358,855; inventories, $3,686,483, compared with $4,932,158, and other investments, $2,294,138, compared with $2,607,488.

PUBLIC UTILITIES

Abitibi Power & Paper Co.—Annual Report for 1920 will, it is estimated, show net earnings of $4,500,000, against $2,125,717 for 1919. Last year's earnings, therefore, were equal to about $12 a share on the 250,000 shares of common stock outstanding.

Cities Service Co.—Bankers' Shares.—The company has declared a dividend of 35c. **a share** on its Bankers' shares, payable April 1, to stockholders of record March 15.

Commonwealth Edison Co.—Annual Report for the fiscal year ended Dec. 31, last, shows a surplus after charges and taxes of $4,708,402, equivalent to $9.23 a share on the $50,978,000 capital stock outstanding. This compares with a surplus of $4,487,138, or $9.61 a share earned on the $50,422,800 outstanding stock in the preceding year.

Commonwealth Power, Railway & Light Co.—January Gross Earnings were $2,843,696, an increase of $244,737 over January, 1920; surplus after fixed charges was $351,373, a decrease of $1,337, and the balance after preferred dividend was $261,608, a decrease of $1,337.

For the 12 months ended with January gross earnings were $31,530,718, an increase of $5,116,413 over the preceding 12 months; net earnings after taxes were $8,963,900, a decrease of $96,623, and the balance after preferred dividends was $796,400, a decrease of $661,334.

Dayton Power & Light Co.—Gross Earnings in 1920 were $3,734,487, compared with $2,932,868 in 1919, and net earnings $958,466, compared with $1,056,959. Net income was $432,627, compared with $433,209, and surplus after preferred dividends was $223,806, compared with $239,648.

The balance sheet as of December 31, last, shows current assets of $452,542; materials and supplies on hand, $420,740; current liabilities, $513,064; surplus, $839,860, and total assets and liabilities of $17,869,059.

Great Western Power System.—Gross Earnings in January were $641,325, an increase of $145,104 over January, 1920, and surplus after charges and taxes was $238,125, an increase of $136,990. For the twelve months ended with

(*Continued on page 732*)

NICKEL IN PERIOD OF RESTRICTED EARNINGS

(*Continued from page* 701)

encouraging. The company may have to provide further facilities in order to provide for this expansion in these products.

During the last fiscal year, ended March 31, 1920, the company expended $1,335,154 in the erection of the new dam to serve the hydro-electric power plant in Canada, and in the installation of labor-saving machinery at its various plants. Further capital expenditures will be necessary from time to time, and this fact, together with reduced earnings, will serve to postpone resumption of dividends on the common stock.

Financial Position and Outlook

The company's financial position is good, although its cash resources have been reduced from $3,137,636 to $1,757,997 during the year 1920, and its inventories have increased from $7,890,148 to $11,704,483 during the same period. However, the inventories are represented largely by materials ready for immediate shipment, and supplies valued at cost, and not above market price. Accounts payable have decreased over $500,000, and increase in working capital amounts to over $4,000,000, or a total of $15,911,302 as of December 31, 1920.

The number of stockholders increased rapidly up to March 31, 1919, and then fell off about 400 during the following year, as indicated in Table II.

The accompanying graph illustrates the price range of the company's shares, and serves to suggest their speculative possibilities should improvement occur in industrial conditions. The immediate outlook for the company's business does not make the shares attractive, but they will bear watching, with a view to their purchase upon improved conditions in the metal market, and with increased demand from users of nickel-steel alloys, the automobile industry for example.—vol. 25, p. 644.

January gross earnings were $6,689,052, an increase of $1,240,658 over the preceding twelve months, and surplus after charges and taxes was $1,837,130, a gain of $453,485.

Manufacturers Light & Heat Co.—Annual Report for 1920 shows net income after taxes and charges of $2,591,283, compared with $3,981,377 for 1919. After payment of dividends there was a balance of $713,574, compared with a balance of $1,482,585 for 1919.

Northern Ohio Electric Corp.—January Gross Earnings were $812,742, a decrease of $69,270 compared with January, 1920; net earnings after taxes were $138,947, a decrease of $125,937. After payment of dividends on the preferred stock there was a deficit of $42,452, compared with a surplus of $104,625 for January of the previous year. For the twelve months ended with January gross earnings were $10,945,574, an increase of $1,461,856 over the preceding twelve months; net earnings after taxes were $2,358,749, a decrease of $326,768, and the balance after payment of preferred dividends was $326,340, against $809,122.

Philadelphia Rapid Transit Co.—Annual Report for 1920 shows net income, after charges and taxes, of $382,065, which is equivalent to 63c. a share ($50 par value) on the $29,991,660 capital stock outstanding. This compares with net income of $1,715,676, or $2.86 a share earned in the previous year.

Public Service Corporation of Northern Illinois.—Annual Report for the fiscal year ended December 31, last, shows a surplus after charges and taxes of $1,365,776, equivalent after deduction of preferred dividends to $7.47 a share on the $12,063,500 common stock. This compares with a surplus of $1,346,206, or $7.38 a share earned in the preceding year.

OILS

Barnsdall Corp'n.—Net Earnings of the corporation and subsidiary companies in the year ended Dec. 31, last, were, after depreciation, depletion and taxes, $2,542,386, equivalent to $4.54 a share on the outstanding common stock. This compares with net profits of $1,406,967, equivalent to $2.70 a share in the previous year. After payment of dividends, $1,167,386 was carried to surplus, bringing the total surplus to $6,122,485.

The consolidated balance sheet as of Jan. 1, last, shows current assets of $4,855,305, of which $2,638,300 was cash; $708,760 Liberty Bonds at market prices, and $727,071 bills receivable. Inventories at market prices were carried at $347,313. Current liabilities were $2,082,998, and total assets amounted to $31,705,483.

Phillips Petroleum Co.—Gross Earnings for the quarter ended Dec. 31, last, amounted to $2,178,082, from which expenses and interest amounting to $417,797 were deducted, leaving net earnings, before depreciation, depletion and taxes, of $1,760,285. This compares with $1,824,375 earned in the preceding quarter. For the full year, 1920, net earnings before depreciation, depletion and taxes, totaled $6,282,150.

Solar Refining Co.—Net Profits, after Federal taxes, for the year ended Dec. 31, last, were $1,698,206, equal to $84.91 a share on the $2,000,000 capital stock. This compares with net profits of $1,651,992, or $82.59 a share in the previous year. After paying dividends amounting to 50% there was a balance of $698,206, which, added to the previous year's surplus, brings the total profit and loss surplus up to $5,112,197.

Standard Oil Co. of California.—Net Profits, after depreciation, depletion and Federal taxes, for the year ended Dec. 31, last, were $41,655,254, which is equal to $41.92 a share on the $99,373,307 capital stock. This compares with net profits of $31,062,768, or $31.26 a share earned in the previous year.

Texas Pacific Coal & Oil Co.—Stock Dividend Omitted.—The directors of the company have declared a regular quarterly cash dividend of 2½% (25c.) per share, payable March 31, to stockholders of record March 15, but have taken no action in regard to the stock dividend. The last stock dividend was paid January 3.

Standard Oil Co. of Indiana.—The company's earnings in 1920 were the largest in its history. Net was $61,377,803, compared with $34,604,417 in 1919. After reserving $20,404,139 for taxes, more than double the 1919 appropriation, there remained a balance of $40,973,484 available for dividends, as compared with $24,807,793 in the previous year. This balance was equivalent to $11.63 on the 3,521,532 shares of stock of $25 par value. In the previous year, the net earnings were equal to $82.69 a share on the 300,000 shares of $100 par value stock then outstanding.

Washington Oil Co.—Net Income, after depreciation, depletion and taxes, for the year ended Dec. 31, last, was $64,076, equivalent to $6.41 a share ($10 par) on the $100,000 capital stock.

MINES

Chile Copper Co.—Copper Production of the company's mines in February was 5,268,000 lbs. This compares with 6,730,000 lbs. in January and with 8,630,000 lbs. in February of last year. It is estimated by the management that the March production will be approximately 5,000,000 lbs.

Chino Copper Co.—For the three months ended December 31, last, the company shows net operating profits of $70,927, which is equivalent to 8c. a share (par value $5) on the $4,349,900 outstanding capital stock. This compares with a profit of $108,783, or 12c. a share in the preceding quarter, and with $490,627, or 56c. a share in the December, 1919, quarter.

For the 12 months ended with December, net operating profits were $1,319,589, equivalent to $1.51 a share on the stock. In the preceding 12 months operating profits were $1,389,985, equivalent to $1.59 a share.

Goldfield Consolidated Mines Co.—Total earnings for the year ended December 31, last, were $33,455, compared with $244,849 in 1919. Total expenses were $248,330, against $1,227,566 in the previous year, and the net result was a deficit of $214,875, as compared with a deficit of $982,716 in 1919.

Granby Consolidated Mining, Smelting & Power Co., Ltd.—Copper production in January amounted to 2,530,038 lbs., compared with 2,665,018 lbs. in December, 2,465,585 lbs. in November, and 1,975,439 lbs. in January, 1920.

Inspiration Consolidated Copper Co.—February Production was 4,500,000 lbs. of copper, compared with 5,000,000 lbs. in January 5,000,000 lbs. in December, and 7,200,000 lbs. in February, 1920.

International Silver Company—Financial report covering the year 1920 shows a surplus after preferred dividends of $913,536, compared with a surplus of $1,040,806 in 1919.

Kennecott Copper Corp'n.—Dividend Omitted—The company has passed the quarterly dividend of 50c a share, due at this time. Initial quarterly dividends of $1 a share were started on March 31, 1916. This was increased to $1.50 in June, 1916. On December 31, 1917, the dividend was reduced to $1, and in March, 1919, to 50c. quarterly.

"Owing to the extremely light demand for copper and the consequent inability to dispose of its product, the directors believe the best interests of the Kennecott Copper Corp'n are being served by passing the disbursement for the current quarter."

Pittsburgh Coal Co.—Annual report for 1920 shows net income, after all charges but before Federal taxes, of $10,932,715, which is equivalent to $16.27 a share on the $67,169,200 aggregate common and preferred stock. This compares with a net income of $4,559,716, or $6.69 a share earned on the combined $16,169,200 stock in previous year.

THE TASK OF THE NEW ADMINISTRATION

(*Continued from page* 720)

in the world interest, should quickly act so as to multiply the markets of the world, to increase buying power where it already exists, and to help in establishing buying power where at the moment it is non-existent."

"Would you recommend this as a part of the concern of the new Administration?"

"All this is not a matter for government, but for individual bankers and men of affairs, for manufacturing and trading corporations, and for banking institutions especially adapted to finance trade or create it for that particular purpose.

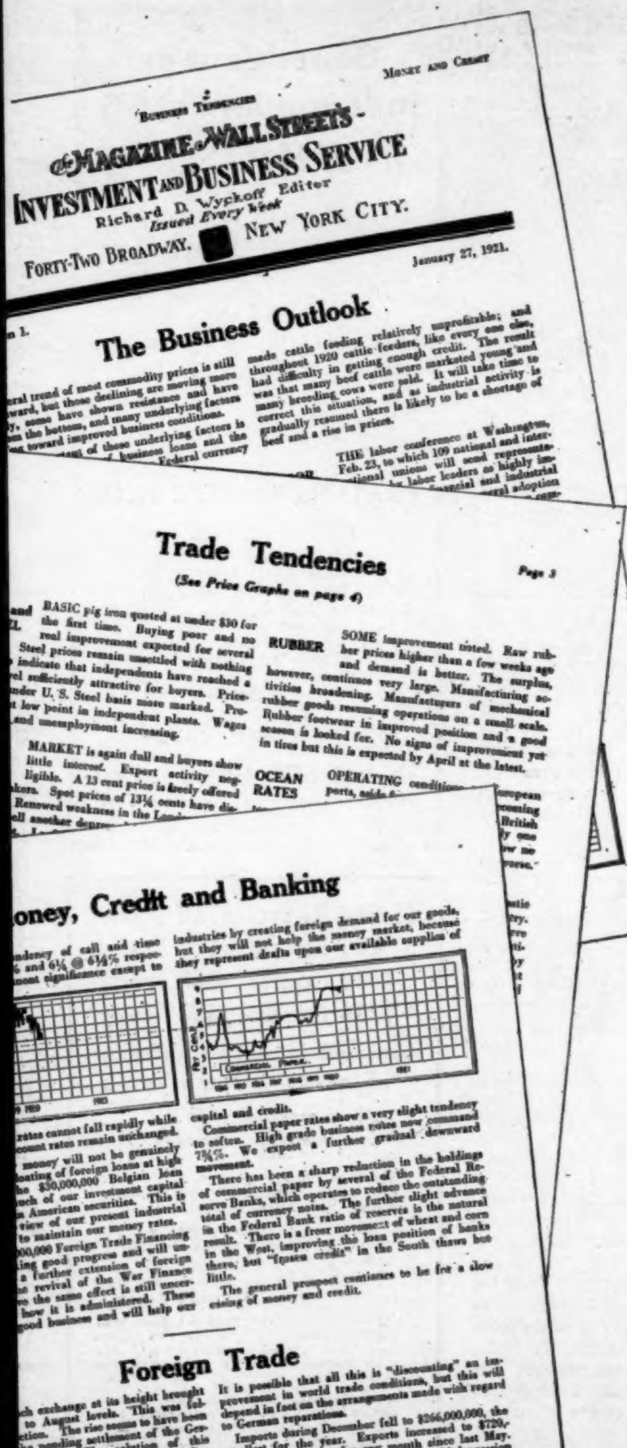
"To speak concretely, a worthy enterprise such as the Foreign Trade Financing Corporation should be able to sell its securities practically to every citizen of the country, the same as the Government bonds were sold in our Liberty Loan campaigns."

German Indemnity Comparatively Small

"What about the German Reparations tangle?" I asked.

"This is another matter that is misunderstood by many. The big headlines in the newspapers were, and are very misleading. They say that $56,500,000,000 was demanded of Germany by the Allies. It conveyed the impression that this amount was exacted in one lump sum. Nothing could be further from the truth. **The principal and interest for 42 years were both included in this figure. It really means that at 6 per cent interest, the present sum would be only $18,000,000,000. At the rate some of the European nations are paying for money, it means a principal sum of only $13,000,000,000.** I wrote a letter to Lloyd George, mildly chaffing him upon his lack of the publicity instinct. Why this misleading way of handling this matter by our newspapers was resorted to I do not comprehend unless it was through sheer thoughtlessness. As a matter of fact, if the amount of the indemnity paid by France to Germany at the end of the Franco-Prussian War in 1871 was to draw interest at the rate of 6% compounded annually, it would amount to

(*Continued on page* 736)


Business Tendencies

Money and Credit

The Magazine of Wall Street's

INVESTMENT AND BUSINESS SERVICE

Richard D. Wyckoff Editor

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The Business Outlook

Trade Tendencies

(See Price Graphs on page 4)

Money, Credit and Banking

Foreign Trade

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Mar. 19

THE TASK OF THE NEW ADMINISTRATION

(Continued from page 733)

a sum more than twice as large as the sum demanded of Germany today by all the Allies combined."

Importance of Administrative Unity

"What one thing, doctor, would you recommend to the present Administration as a new and practical thing to do?"

"We have now had a long experience with a sharp separation of the executive and legislative powers, and that this separation has some disadvantages is certain. Our Governmental policies too often lack continuity and coherence because of it. In many ways the effectiveness and economy of the National Government suffer severely owing to the fact that so often the executive and the legislative act at cross purposes, or on insufficient and inaccurate information, or from a misunderstanding of the motives of each other.

"This difficulty could be in a large measure removed if action were taken, as might easily and constitutionally be done, giving to the members of the President's Cabinet seats upon the floor of the Senate and House of Representatives, with the right to participate in debate upon matters relating to their several departments, and with the obligation to answer questions and to give information in response to requests from Senators and Representatives. This is not a new proposal. It is associated chiefly with the name of George H. Pendleton, of Ohio, who brought it forward as long ago as 1864, when he was a member of the House of Representatives. He was vigorously supported at that time by Mr. Garfield and by Mr. Blaine. Fifteen years later, when Mr. Pendleton was United States Senator from Ohio, he returned to the subject and introduced a bill dealing with the matter which was referred to a select committee, and soon reported favorably over the signature of Senator Pendleton himself, together with those of Senators Allison, Voorhees, Blaine, Butler, Ingalls, Platt, of Connecticut, and Farley, of California. Even these important leaders, however, could not accomplish this desirable reform although they were united in its support. The proposal was renewed again by John D. Long, of Massachusetts, when a member of the House of Representatives in 1886. It has received the indorsement of President Taft.

"That this action would, if taken, greatly increase the efficiency of our Government and bring the executive and the legislative branches into closer understanding of each other's methods and purposes, without in the least trenching upon the independence and authority of either, seems to me quite certain. One of the most valuable features in the business of the House of Commons is the asking by members of the House of specific questions on matters concerning which the public wishes information, or about which some criticism or discussion has arisen. Many a long and useless speech that now extends over pages of the Congressional Record would be saved if a responsible cabinet officer were at hand to give immediate answer to a definite question, or to offer a statement of fact."

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